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**NAVAL
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MONTEREY, CALIFORNIA

THESIS

**PERFORMANCE BASED BUDGETING: A MODEL FOR
THE INDONESIAN DOD**

by

Hendri Syukri

June 2005

Principal Advisor:	Jerry L. McCaffery
Associate Advisor:	Lawrence R. Jones

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**PERFORMANCE BASED BUDGETING: A MODEL FOR
THE INDONESIAN DOD**

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Submitted in partial fulfillment of the
requirements for the degree of

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from the

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ABSTRACT

A dramatic increase in the past three years in the Indonesian defense budget, from approximately US\$800 million (FY2002\$) in 2002 to approximately US\$ 2.4 billion (FY2005\$) in 2005, has created the need for the Indonesian Department of Defense (DOD) and National Armed Forces (TNI) to enhance performance and accountability for effective and efficient use of state funding. It is imperative that DOD and TNI move to better inform the public and high level government officials by increasing transparency on how the defense budget is allocated and spent. Current DOD and TNI performance evaluation tools and financial management measurement and reporting methodologies are ineffective, particularly because they do not link performance assessment to the budget and the budget process.

Reform is needed to implement Performance Based Budgeting (PBB) to create direct linkages between allocation of resources in the budget, performance measurement, and strategic planning relative to defense policy objectives so as to bolster public accountability for the DOD and TNI. This thesis analyzes implementation of the Government Performance Results and Act of 1993 in the US Federal Government and specifically in the US Department of Defense, to develop a PBB model for the Indonesian DOD/TNI. The thesis addresses critical factors and the steps and processes necessary to create a performance-based budget including strategic planning, performance measurement, and methods to link performance to budgets.

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EXECUTIVE SUMMARY

In essence, Performance Based Budgeting is a set of processes translating the strategic planning framework into performance measures in terms of input, output, and outcome to be tied into resource allocation in the budgeting process to seek greater efficiency and effectiveness.

Past initiatives and experience as well as support from the President and Congress have made GPRA a prominent best practice to implement performance based budgeting in the US federal government. Specifically in the DOD, facing the complexities of its gigantic budget and business activities plus the daunting task inherent in developing measures of ultimate performance, progressively DOD has tried to incorporate links between budget development under OMB guidance and resource the allocation decision making process PPBS.

To be able to implement PBB in 2006, the Indonesian Government and especially DOD has to better prepare the strategic framework and implementation guidance of PBB, especially the performance assessment tool to be used to link performance to budgets. There are two key challenges for the Indonesian DOD and TNI to succeed in implementing PBB. First, DOD and TNI must provide a unitary strategic plan that requires a total fusion of DOD and TNI goals and objectives. Second, PBB requires transparency. The degree of confidential justification in the defense sector needs to be examined and redefined so that transparency in cooperating with the stakeholders in designing performance measurement systems and linking performance to budgets will enhance public accountability in allocating and managing limited budget and resources.

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I. INTRODUCTION

A. BACKGROUND

In the past two decades, there have been radical changes in public sector management. Although the issues between developed and developing countries are different, in essence, the main political theme is how to bolster public management accountability. Key stakeholders such as the public and the legislature have become increasingly interested in how public funds are allocated and spent and how to reduce public spending and to save the taxpayer money coupled with attempts to eliminate a large portion of moral hazard, the risk that the presence of action will affect other parties, and adverse selection, a situation where asymmetric information results in harming other parties, in the public sector.

One of the attempts is to fundamentally restructure the budget management system. Shifting from the previous view of highly centralized budget management focused primarily on resource allocation and input control to a new budget management model, called "performance budgeting," aimed to create a direct linkage between allocating resources through the budget and performance integration in reaching stated objectives has become a prominent reform. Although the systems and implementations vary from country to country, the objective is solely directed to provide public sector budgeting information on an outcome basis seeking greater efficiency and effectiveness.

The idea of performance budgeting in the United States was initiated in the 1950's based on Hoover Commission recommendation. However, changes in administration have

also created changes in the budget management system. From the Hoover recommendation, to Planning, Programming and Budgeting System (PPBS), Management by Objectives (MBO), Zero Based Budgeting, and finally Performance Based Budgeting has enriched the evolution of using performance measurement in budgeting process.

The GPRA is the recent attempt of introducing performance-based management and budgeting techniques in the United States. The Recent economic downturn coupled with fiscal stress caused by September 11 attacks and its further effort in war of terrorism has created significant budget pressures not only in federal government but also state government as well as an increasing demand from the taxpayer for government efficiency and effectiveness. This emphasizes the need for reform. The information about the performance of programs has never been more important.

The role of United States Department of Defense in performance budgeting evolution is very important. PPBS which was initiated by Robert McNamara, former Secretary of Defense, has provided an introduction of a decision-making framework to the executive branch budget formulation process by presenting and analyzing choices among long-term policy objectives and alternative ways of achieving them as well as a basis in developing performance plans and measurement system.

Indonesia, as a developing country and fledgling country in democracy, since a tragic monetary and economic crisis in 1998, has experienced a number of reform actions towards how government can run like a business. The country has faced remarkable challenges: economic reform, a transition to democracy after 30 years under military rule,

state owned enterprises restructuring and privatization, rising unemployment and poverty and a massive decentralization of power to nearly 400 local governments. The country still continues to suffer due to political and economic uncertainty. Other public accountability problems such as waste and inefficiencies, overseas loan management, and endemic corruption have really caught public attention and creditor interests.

The effort to use performance budgeting in state government is still in process in setting up the performance measurement system and preparing the regulation to support the program. Although in some local governments performance budgeting has been initiated by having assistance from some Non Governmental Organizations (NGO), the standardized benchmarking performance measurement system is still not available. Past initiatives to implement a government performance evaluation tool had always failed because the government itself was not serious or even some feel reluctant to implement it.

In the defense sector, a series of reform agenda has been undertaken to alter Indonesian National Armed Forces, TNI (Tentara Nasional Indonesia), and dominant role during the years of Soeharto's New Order regime into a new paradigm of military reform. Challenges such as controversy on division of authority between TNI and Department of Defense, military business under TNI Foundation funds, minimum defense budget allocation coupled with lack of deployment readiness due to inappropriate and obsolete main weaponry system, and inefficiency and ineffectiveness in resource allocation are still major concerns for the future.

DOD/TNI has already implemented the PPBS system in which initial efforts to measure performance had already begun. However, my organization, The Audit Board of the Republic of Indonesia faced difficulties in obtaining and evaluating information because there is no standard or benchmarking to be compared with and there is no law that forces them to disclose it to the Audit Board. Confidential justification to protect national security is always used to cover many issues in some areas of the military sector to avoid scrutiny from the stakeholders.

As a result, the Audit Board, as an independent high state institution and government's accountability watchdog, will face enormous challenges in its function as an external control towards government accountability in utilizing and managing the state's finances to create good governance. The task is even much more difficult with the Law No. 7/2003 on State Budget because the law mandates the Audit Board to conduct audits on government performance. On the other hand, the current government performance evaluation tool still can not represent an ideal performance measurement system due to lack of strategic planning and inappropriate performance measures.

Based on above circumstances, new tools to enhance government accountability and to cure all endemic and systematic government problems have to be found. Hopefully, Performance Based Budgeting will be one of them.

B. OBJECTIVES

The objective of this thesis is to investigate and analyze the implementation of Performance Based Budgeting (PBB) in US Federal Government especially in DOD as well as

to provide and promulgate a PBB model for Indonesian DOD/TNI. In addition, this research will address the historical perspective of PBB; steps and processes to implement PBB; the current implementation Government Performance and Results Act (GPRA) of 1993 including policy, guidance, tools and lessons learned; Recommendations will include why the PBB model is important for Indonesian DOD/TNI and how PBB might be implemented throughout the Indonesian DOD/TNI. To conclude, this study will provide conclusions and recommendations that could promulgate the implementation of PBB in all branches of the Indonesian government especially in DOD/TNI.

C. RESEARCH QUESTIONS

The research questions that will be investigated and analyzed in this project report are as following:

- How has Performance Based Budgeting evolved historically in United States?
- What are GPRA elements, budget and performance integration and Program Assessment Rating Tool?
- How is the implementation of GPRA and specifically at Department of Defense?
- How does the US experience differ from other countries (Britain, Canada, Australia)?
- What is Performance Based Budgeting and what are the principles in PBB?
- What are steps and processes that must be done in implementing Performance Based Budgeting?
- How can performance measures be linked to budget?

- How is the current budgeting process in Indonesia and specifically at DOD/TNI?
- How might Performance Based Budgeting be implemented through Indonesian DOD?

D. SCOPE AND LIMITATIONS

This study provides a broad overview of performance based budgeting especially the Government Performance Results and Act (GPRA) 1993. The focus is on the strategic framework and the basic process of performance based budgeting to appropriately provide a basic model for PBB for Indonesian DOD/TNI. Due to the study solely based on the literature review, it does not address any detailed implementation of GPRA in the federal government and U.S. DOD as well as any detailed model including evaluation for Indonesian DOD/TNI. It simply provides the foundation for further action or research into the potential creation of such model as the performance based budgeting in Indonesia concept is still in the developmental stages.

E. RESEARCH METHODOLOGY

The methodological approach used in this MBA Project consists of conducting a literature review of Performance Based Budgeting theory, best practice, policy and guidelines, use of library information resources, and websites. It evolved as the research project and process for a period of approximately nine months. Initial stages were begun by performing an extensive literature review of the performance based budgeting in United States as well as the GPRA. It was followed by examining the conditions in Indonesia which includes the budgeting process and the

performance budgeting efforts. After deriving a number of lessons from those reviews, the focus shifted to a comprehensive review of performance measurements system by examining performance measurement theory, policy and guidelines, and best practice or worldwide benchmarking.

F. ORGANIZATION OF STUDY

The study is organized into five chapters. Chapter I provides the research background as well as delineates the objectives, research questions, scope and limitations and methodologies of the study.

Chapter II describes PBB evolution in U.S., discuss GPRA including its elements, budget and performance integration, general implementation in federal government and specific implementation in DOD and finally provides some comparative studies in other countries, Britain, Canada, and Australia.

Chapter III introduces the performance based budgeting and describes the literature review of Performance Based Budgeting including strategic planning, performance measures, and linking performance and budget.

Chapter IV discusses the current condition in Indonesia including the budgeting process and performance budget efforts with focus on Indonesian Department of Defense and provides model and an example for Indonesian DOD about implementing the performance based budgeting.

Chapter V provides the conclusions from the research concerning the performance based budgeting and recommendations for further study.

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II. GOVERNMENT PERFORMANCE AND RESULTS ACT 1993

A. INTRODUCTION

This chapter lays out the literature review of the Government Performance and Results Act (GPRA) 1993. Section B describes the performance budgeting evolution in United States. Section C provides the GPRA overview and the followed by the GPRA main elements in Section D. Section E outlines the Budget and Performance Integration as well as the balance scorecard. Section F mainly discusses the Program Assessment Rating Tool (PART) system. Section G discusses general implementation of GPRA in Federal Government. Section H, reviews specifically the implementation of the GPRA in DOD. Section I reviews the comparative review of three countries, Britain, Canada and Australia. A summary is provided at the end of the chapter in Section J.

B. PERFORMANCE BUDGETING EVOLUTION IN UNITED STATES

Budgeting in the United States has experienced at least five emphases, starting with control at the turn of the century, moving to management in the New Deal and post-World War II period, to planning in the 1960s, prioritization in the 1970s and 1980s and to accountability in the 1990s.¹ GAO observes that:

At the federal level, interest in performance budgeting has led to numerous initiatives since World War II, including four that were government wide in scope: (1) reforms flowing from the first Hoover Commission in its efforts to downsize the

¹ Charlie Tyer and Jennifer Willand, "Public budgeting in America: A twentieth century retrospective," *Journal of Public Budgeting, Accounting & Financial Management* 9, no. 2 (1997): 189.

post-World War II government, (2) Planning-Programming-Budgeting-System (PPBS) begun in 1965 by President Johnson, (3) Management by Objectives (MBO) initiated in 1973 by President Nixon, and (4) Zero-Base Budgeting (ZBB) initiated in 1977 by President Carter. Each of these efforts established unique procedures for linking resources with results.²

Budget reform was initiated in 1910 by President Taft by forming the Commission on Economy and Efficiency. The report from commission entitled *The Need for a National Budget* was presented to Congress in 1912 and it focused national attention on budgeting and sound fiscal management. Among major recommendations made were the following:

1. The President should prepare and present a budget to Congress (the executive idea).
2. A budget message should accompany the budget and should outline policy proposals of the President as well as include summary financial information.
3. The Secretary of the Treasury should submit a consolidated financial report to Congress.
4. Each Agency should submit to Congress an annual financial report.
5. Agencies should establish and maintain a comprehensive accounting system.³

These recommendations became the foundation for the Budget and accounting Act of 1921 which established an executive budget at the national level in the United States and became the foundation for present day budgeting at the federal level.

² United States. General Accounting Office, *Performance budgeting : past initiatives offer insights for GPRA implementation*, (Washington, D.C: The Office, 1997), 54.

³ Cozzettom Kweit and Kweit, 1995: 20-21; in Tyer and Willand, *Public budgeting in America: A twentieth century retrospective*, 189.

Performance budgeting itself had been initiated since 1950s based upon the 1949 Hoover Commission recommendations, first, as "...a focus of attention on the ends to be served by the government rather than on the dollars to be spent"⁴ and second, "...a budget based on functions, activities and projects, called a 'performance budget,' be adopted..." (Hoover Commission, 1949, p. 8.). The Commission observed that if the federal budget were prepared on a performance basis, focusing attention on the amount of work to be achieved, and the cost of this work, Congressional action and executive direction of the scope and magnitude of different federal activities could then be appropriately emphasized and compared in the resource allocation process.⁵

With the expansion of governmental activity during the New Deal and World War II, attention began to shift to management efficiency and led to wider interest in performance budgeting, particularly at the national level. Budget information for the national government would be structured in terms of activities rather than line items, and that performance measurement is provided along with performance report.⁶

Consistent with the Hoover Commission's recommendations, the Congress enacted the Budget and

⁴ Seckler-Hudson, C. Advanced Management.: 1953, reprinted in 1978. In Bernard Pitsvada and Felix LoStracco, "Performance budgeting--the next budgetary answer. But what is the question?" *Journal of Public Budgeting, Accounting & Financial Management* 14, no. 1 (2002): 53.

⁵ Jerry McCaffery and L. R. Jones, *Budgeting and financial management in the federal government*, (Greenwich, CT: Information Age Publishing, 2001), 472.

⁶ J. Burkhead, Government Budgeting, New York: John Wiley and Sons, 1956, In Tyer and Willand, *Public budgeting in America: A twentieth century retrospective*, 189.

Accounting Procedures Act of 1950 (BAPA), which, among other things, required the President to present in his budget submission to the Congress, the "functions and activities" of the government, ultimately institutionalized as a new budget presentation: "obligations by activities."⁷ GAO further states that these presentations were intended to describe the major programs, projects, or activities associated with each federal budget request—in a sense, the "performance budget" of a government which at that time was primarily involved in directly providing specific goods and services. Workload and unit cost information began to appear in the President's Budget, associated with the "obligations by activities" presentations, providing a means of publicly reporting the outputs of federal spending.

Particularly at the national level, however, performance budgeting encountered a number of problems and performance budgeting did not work very well. Budget estimates were no more meaningful than those in line item budgets, works measurement presented problems, measuring the output of governmental services was imprecise, input could be easily measured but not outputs, and, finally, there was a lack of tools to deal with the long range problems.⁸

When Robert McNamara led the Defense Department, he initiated a specific form of program budgeting called Program, Planning and Budgeting System (PPBS) in 1962 and

⁷ United States. General Accounting Office, *Performance budgeting : past initiatives offer insights for GPRA implementation*, 54.

⁸ Miller, G.J., Productivity and the Budget Process," in Tyer and Willand, *Public budgeting in America: A twentieth century retrospective*, 189.

in few years, President Lyndon Johnson extended PPPBS to the entire federal government. Performance budgeting, as a subset of program budgeting, suffered the same fate as program budgeting in most agencies when the Nixon Administration abandoned it in 1969. However, where remnants of PPBS survived, so did performance measurements; in some respects, the Pentagon led the recent march back to performance budgeting because PPBS remains its operative budget system.⁹

According to Allen Schick,¹⁰ several other arguments that made PPBS failed are:

- It was introduced across the board without much preparation
- It flew in the face of existing budgetary traditions and relationships; in particular, many people strongly objected to the suggestion that the budgetary process, which is inherently political, could be made "rational."
- It was not given adequate resources, and top managers were not entirely committed to it.
- Good analysis and data were in short supply, and they were necessary to produce the kind of information crucial to the success of PPBS.
- Because PPBS was intended to require a review of all activities in each year, the reform caused so much conflict that the political system was not able to handle it.
- PPBS clearly assumed that efficiency was the primary value to be considered in evaluating the usefulness of programs, which was not generally agreed to and is a difficult assumption to make in the case of a public program.

⁹ United States. General Accounting Office, *Performance budgeting : past initiatives offer insights for GPRA implementation*, 54.

¹⁰ Schick, Allen. "A Death in the Bureaucracy: The Demise of Federal PPB." *Public Administration Review*, 1973, 33(2), 146-156. In Philip G. Joyce, "Performance Based Budgeting," in *Handbook of Government Budgeting*, ed. Roy T. Myers. Anonymous (San Fransisco: Josey-Bass Publishers, 1999), 597-619.

- PPBS was an executive budget system, and largely ignored the role of Congress in the budgetary process. The result was that Congress ignored the system in favor of its established procedures.

According to GAO in its 1997 report, the performance measurements or performance factors became vital components in PPBS analyses and PPBS had successfully introduced a decision-making framework to the executive branch budget formulation process by presenting and analyzing choices among long-term policy objectives and alternative ways of achieving them. Performance was generally defined as agency outputs, with an agency's program structure linking outputs to long-term objectives. Systems analysis and other sophisticated analytical tools were an intrinsic part of PPBS, with measurement seen as an essential means to better understand federal outputs, benefits, and costs.¹¹

In 1973, President Nixon initiated Management by Objectives, which was primarily a federal management improvement initiative. GAO observes that MBO put in place a process to hold agency managers responsible for achieving agreed-upon outputs and outcomes. Agency heads were accountable to achieve presidential objectives of national importance; managers within an agency would be held accountable for objectives set jointly by supervisors and subordinates. Performance was primarily defined as agency outputs and processes, but efforts were also made to define performance as the results of federal spending—what would today be called “outcomes.”

¹¹ United States. General Accounting Office, *Performance budgeting : past initiatives offer insights for GPRA implementation*, 54.

Initiated in 1977 by President Carter, Zero-Base Budgeting (ZBB), an executive branch budget formulation process, was introduced into the federal government. Zero Based Budgeting, a bottom-up concept in which all programs have no funding at the beginning of each budget cycle, required all departments to identify their programs, and to rank and justify the existence of each program in order of priority. GAO claims that:

ZBB main focus was on optimizing accomplishments available at alternative budgetary levels and under ZBB agencies were expected to set priorities based on the program results that could be achieved at alternative spending levels, one of which was to be below current funding. In developing budget proposals, these alternatives were to be ranked against each other sequentially from the lowest level organizations up through the department and without reference to a past budgetary base. In concept, ZBB sought a clear and precise link between budgetary resources and program results.¹²

Related to the idea of Hoover Commission, PPBS, MBO and ZBB, according to GAO¹³, past initiatives, although generally perceived as having fallen far short of stated goals, contributed to the evolution of performance-based measurement and budgeting in the federal government, and many concepts introduced by these initiatives became absorbed in the federal government and persisted long after their origins in PPBS, MBO, or ZBB had been forgotten. For example, first, the "obligations by activities" presentations established in response to the Hoover

¹² United States. General Accounting Office, *Performance budgeting : past initiatives offer insights for GPRA implementation*, 54.

¹³ *ibid.*

Commission's performance budgeting recommendations continue today, although they are now referred to as "program activities." Second, PPBS and MBO fostered exploration of difficult performance measurement issues, ultimately demonstrating the inherent limitations of analysis in a political environment and the often complex and uncertain relationship between federal activities, outputs, and outcomes. Finally, ZBB illustrated the usefulness of presenting alternative funding levels and expanded participation of program managers in the budget process.

When viewing collectively the past initiatives, GAO suggests two common themes. First, any effort to link plans and budgets must explicitly involve both branches of government, executive and Congress. The failure of PPBS and ZBB was solely caused by lack of Congressional involvement. Second, with all past initiatives and efforts from Hoover Commission, PPBS, and ZBB, it is more likely that the concept of performance continues to evolve.¹⁴

During the Reagan presidency, major adds to defense spending compared to cuts on non-defense spending, led to enormous increasing spending on discretionary accounts that caused incremental reductions to federal government agency programs and substantial growth in the federal budget. By the end of 1990s, the country condition was even worst with dollars overflowing the Treasury, the caps could not restrain political will and the budget continued to expand.

¹⁴ United States. General Accounting Office, *Performance budgeting : past initiatives offer insights for GPRA implementation*, 54.

All of this leads to think about implementing performance budgeting.¹⁵

In the 1990s, considerable attention has been refocused upon performance budgeting, resulting in a new notion of performance budgeting to what called "Entrepreneurial Budgeting."¹⁶ One influence was the 1992 publication of "Reinventing Government, How the Entrepreneurial Spirit is Transforming the Public Sector" by David Osborne and Ted Gaebler. The idea was to hold governments accountable for results rather than focus upon inputs as traditional budgets and management did. Cost saving and entrepreneurial spirit would be rewarded. A long term view would be facilitated in terms of strategy, costs and planning for programs.¹⁷

Drawing on this attention, the Government Performance and Results Act (GPRA) of 1993 (PL. 103-62) was passed by Congress. The GPRA drew upon earlier antecedents, such as a report submitted during the Reagan Administration and a bill introduced in 1991 by Senator William Roth that had not been enacted, but was revised and became the GPRA.¹⁸ Initially, the act specifically focused attention on results and performance budgeting. It requires federal agencies to prepare strategic plans by 1997, to prepare annual performance plans starting with fiscal year 1999,

¹⁵ H. Heclo, Executive Budget Making. In Pitsvada and LoStracco, *Performance budgeting--the next budgetary answer. But what is the question?*, 53.

¹⁶ D.A. Cothran, Entrepreneurial Budgeting: An Emerging Reform, (1993) in Miller, G.J., Productivity and the Budget Process," in Tyler and Willand, *Public budgeting in America: A twentieth century retrospective*, 189.

¹⁷ *ibid*.

¹⁸ W. Groszyk, Implementation of the Government Performance and Results Act of 1993, 1995, November, in *ibid*.

and submit an annual program performance report to the President and Congress comparing actual performance with their plans beginning in the year 2000.

Basically, the new performance budgeting has been drawn from previous performance budgeting ideas and program budgeting/PPBS concept as well. The mechanism for the transformation of budgeting was a blend of rationality and Reaganism.¹⁹ Also, like the previous reforms, performance budgeting was built on assumptions about the ability of a change in process to change outcomes, without understanding the mechanism by which that would be accomplished in a political system.²⁰

An important distinguishing aspect of GPRA is that it is a law; the others, PPBS and ZBB, were established through Presidential directive. Therefore, GPRA is created by both President and Congress and. It is expected that GPRA would not repeat the failure its predecessor. To maintain the efforts, OMB needs to be more highly cooperative not only with agencies but also with other stakeholders, GAO and more importantly the Congress.

C. GPRA OVERVIEW

For decades, there has been a perception from the public that American government institutions and Congress are not working well and held in low esteem by the American People. The Committee on Government Affairs believes that part of the explanation for this apparent inconsistency

¹⁹ Janet M. Kelly, "The long view: Lasting (and fleeting) reforms in public budgeting in the twentieth century," *Journal of Public Budgeting, Accounting & Financial Management* 15, no. 2 (2003): 309.

²⁰ R.C. Moe, The "reinventing government" exercise: misinterpreting the problem, misjudging the consequences, *Public Administration Review*, 54(2), 111-122, 1994. In *ibid*.

could be seen from a public opinion poll which showed that Americans, on average, believe that as much as 48 cents out of every Federal tax dollar is wasted. In other words, the public believes that it is not getting the level and quality of government service for which it is paying.²¹

The committee also realizes that, first, waste and inefficiency in Federal programs undermine the confidence of the American people in the Government and reduce the Federal Government's ability to adequately address vital public needs. Second, Federal managers are seriously disadvantaged in their efforts to improve program efficiency and effectiveness, because of insufficient articulation of program goals and inadequate information on program performance. Finally, congressional policymaking, spending decisions and program oversight are seriously handicapped by insufficient attention to program performance and results.

The purposes of GPRA are to-(1) improve the confidence of the American people in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results; (2) initiate program performance reform with a series of pilot projects in setting program goals, measuring program performance against those goals, and reporting publicly on their progress; (3) improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction; (4) help Federal managers improve service delivery, by requiring that they plan for meeting program objectives and by

²¹ Committee on Governmental Affairs United States Senate, *Government Performance and Results Act of 1993 Report*, Anonymous, 1993), 1-55.

providing them with information about program results and service quality; (5) improve congressional decision-making by providing more objective information on achieving statutory objectives, and on the relative effectiveness and efficiency of Federal programs and spending, and (6) improve internal management of the Federal Government. GPRA is a potentially far reaching piece of legislation and it seeks to make government agencies more effective and accountable by enhancing their strategic planning, establishing measurable performance objectives, and eventually tying agency budgets to the accomplishment of those objectives²²

The concept draws on (indeed, transplants) concepts from private sector management models and establishes a system in which market-like discipline could be used to improve federal government management.²³ As noted in President Bush's 2003 budget submittal, the ultimate objective is to move the budget debate from "what will the federal government spend?" to "what will the federal government achieve?"²⁴ The Bush administration has continued and expanded the efforts of the Clinton administration to integrate performance information in the federal budget process and to increase managerial flexibility. The performance information from the GPRA process is to be used

²² Manuel R. Gomez, "Exposure Surveillance tools needed in agency GPRA plans," *American Industrial Hygiene Association Journal* 59, no. 6 (1998): 371.

²³ Beryl A. Radin, "The Government Performance and Results Act (GPRA): Hydra-Headed Monster or Flexible Management Tool?" *Public administration review* 58, no. 4 (1998): 307-316.

²⁴ Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2003* (Washington, DC, 2002): 47-52. in R. M. McNab and F. Melese, "Implementing the GPRA: Examining the Prospects for Performance Budgeting in the Federal Government," *Public Budgeting and Finance* 23, no. 2 (2003): 73-95.

to score agencies on their performance, allocate (and reallocate) funds among competing programs, and consolidate and terminate unnecessary programs.²⁵

According to Wildavsky and Caiden²⁶, there are three key challenges for the GPRA to be considered a success. First, the GPRA should assist in the creation of an institutional framework conducive to forming consensus on a unique set of objectives among conflicting stakeholders. Second, GPRA implementation must support the ultimate stated objective of linking resources to results-or to relate data on program performance to appropriation account structures-for the conjectured efficiency gains to be realized. Finally, the GPRA must overcome a traditional system of budgeting that, while often criticized and the focus of almost continuous reform efforts, has survived to this day.

D. GPRA MAIN ELEMENTS

The conceptual entirety of GPRA is fused from three basic elements: (1) strategic planning, (2) performance measurement (which covers goal setting, measurement, and reporting and (3) greater flexibility for managers in return for greater accountability for results.²⁷

A strategic plan of program activities covers at least a five year period and is updated at least every three years. The strategic plan contains a comprehensive mission

²⁵ Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2003* (Washington, DC, 2002): 47-52. in *ibid.*

²⁶ Aaron Wildavsky and Caiden, *The New Politics of the Budgetary Process* (New York: Harper Collins, 1992) in *ibid.*

²⁷ Groszyk, *Implementation of the Government Performance and Results Act of 1993*,

statement for the agency, a specification of general goals and objectives (including outcome-related goals and objectives) as well as how they will be achieved, the relationship between the general goals and objectives and performance goals, identification of key factors that could affect the achievement of the goals and objectives, and a description of the program evaluations used in establishing or revising the goals and objectives. Each agency has to present the plan to Congress and others interested in or affected by the plan (the stakeholders).

The strategic plan must contain a description of how the agency intends to achieve the general goals and should cover the overall approach that will be taken over the time period covered by the plan, including a schedule for significant actions and the needed resources. It should indicate how the goals of the annual performance plans will be used to measure progress in achieving the general goals of the strategic plan, and the underlying basis for any assumptions or projections.²⁸

The annual performance plan includes not only an agency's annual performance plan but also the Federal Government performance plan for the overall budget. Whereas the agency plans are submitted to OMB for use in preparing the overall government-wide performance plan, the Federal Government plan is to be submitted to Congress as part of the Budget of the United States.

The Annual performance plans provide the direct linkage between an agency's longer-term goals defined in

²⁸ Committee on Governmental Affairs United States Senate, *Government Performance and Results Act of 1993 Report*, 1-55.

the strategic plan and the daily basis activities. The plans include performance goals that define the level of performance to be achieved by a program activity in quantifiable, and measurable form; indicate the operational process, skills, technology, and resources required; provide performance indicators to be used in measuring relevant outputs; establish a basis for comparing actual program results with the established performance goals; and specify the means to be used to verify and validate measured values.²⁹

Annual program performance reports contain two main parts: a report on the actual performance achieved compared to the performance goals expressed in the performance goals plan; and of the steps to be taken to achieve those goals that were not met. The reports provide comparison of the actual performance of each program activity to the performance goals in the Annual Performance Plan for a fiscal year. In this report, the agencies have to explain what goals have or have not been achieved, why certain performance goals have not been met in how to provide plans for achieving the goals in the future or to modify the goal if it is not appropriate.

The agency's performance report must be submitted to the appropriate authorization and appropriations committees of the Congress and upon request, the Committee can ask more specific information on the actual performance for any performance indicator established in its annual performance plan. Agencies are required to begin reporting performance trends, on a phased-in basis, so that for FY 2002 and

²⁹ Radin, *The Government Performance and Results Act (GPRA): Hydra-Headed Monster or Flexible Management Tool?*, 307-316.

thereafter, performance data will be shown for each of the most recent four years.³⁰ The annual performance reports provide feedback to managers, policymakers, and the public about the accomplishment of the resources expended or the original goals. The reports must correlate between performance measurement information and program evaluation findings to provide a clear picture of the agency's performance and its efforts at improvement.

In the managerial flexibility section, OMB had to select at least five agencies to participate in pilots from among eligible GPRA performance planning and reporting agencies during fiscal years 1994 to 1996. Agency proposals were to identify the constraining requirement to be waived, quantify how relief would affect performance, and compare the anticipated performance improvements with current performance levels versus levels that could be expected without the waiver.³¹ Performance report shall also describe the use and assess the effectiveness of any waiver of administrative requirements and controls, and summarize the findings of those program evaluations completed during the year covered by the report. If the agency has prepared a classified or non-public annex to its annual performance plan, then those same items shall be covered in a classified or non-public annex to the performance report.³²

Any agency is not allowed to have authority to waive administrative requirements established in law. However, if

³⁰ Committee on Governmental Affairs United States Senate, *Government Performance and Results Act of 1993 Report*, 1-55.

³¹ Jonathan D. Breul, "The Government Performance and Results Act--10 years later," *The Journal of Government Financial Management* 52, no. 1 (2003): 58.

³² Committee on Governmental Affairs United States Senate, *Government Performance and Results Act of 1993 Report*, 1-55.

an agency has authority under a law other than this Act to waive a statutory requirement or control, it may do so and need satisfy only the requirements of that law.³³ Requirements and controls that may be waived are those imposed across the government agency which has a central management role, and cover areas such as financial management, personnel, supply buildings etc.³⁴

E. BUDGET AND PERFORMANCE INTEGRATION

Budget and Performance Integration (BPI) is one of the most important of the reforms on the President's Management Agenda. OMB made this point explicitly when first announcing the management agenda by stating, "Improvements in the management of human capital, competitive sourcing, improved financial performance, and expanding electronic government will matter little if they are not linked to better results."³⁵ According to OMB, the reasons why budget and performance integration is very important in President's Management Agenda because scarce federal resources are seldom be allocated with convincing accounts of the results and agency performance measures are improperly integrated into agency budget submissions and the management and operations of agencies.

To solve the problems and improve financial performance, OMB suggested several reform actions to the

³³ Committee on Governmental Affairs United States Senate, *Government Performance and Results Act of 1993 Report*, 1-55.

³⁴ Groszyk, *Implementation of the Government Performance and Results Act of 1993*,

³⁵ "Budget and Performance Integration: The Reform " [cited 2004]. Available from http://www.john-mercier.com/bpi_reform.htm

Administration such as integrating performance review with budget decisions, identifying high quality outcome measures which accurately monitor the performance of programs, integrating more completely information about costs and program performance in a single oversight process which include budgeting for the full cost of resources where they are used, making budget programs and activity lines more parallel with outputs, and where useful, improving alignment of budget accounts.³⁶

By, this initiative, OMB expects some expected results to be achieved so that federal managers would have better program performance and better cost control and accountability. First, OMB expects agencies to implement performance budgeting, in which each agency and program funding to be based on tangible results and to use comparisons between various programs to make such budget decisions. Starting in 2003, the President's Budget will shift budgetary resources among programs devoted to similar goals to emphasize those that are more effective and the Administration will set performance targets for selected programs along with funding levels.³⁷

Second, OMB expects that by early 2004, agencies will fully understand and facilitate the Program Assessment Rating Tool (PART) to obtain an immediate impact on OMB's decisions on program funding levels. Finally, OMB expects agencies to have the necessary financial management and accounting systems. The principles of managerial cost

³⁶ "Budget and Performance Integration: Expected Results," [cited 2004]. Available from http://www.john-mercero.com/bpi_results.htm

³⁷ *ibid.*

accounting, and especially Activity Based Costing and Cost Management (ABC/M), are key enablers for the agency to realize the full benefits of performance-based budgeting through improved day-to-day program management. OMB mentions the following as being among the expected long-term benefits of this reform:

- o "Better performance..."
- o "Better control over resources used and accountability for results by program managers..."
- o "Better service..."
- o "Standard, integrated budgeting, performance, and accounting information systems at the program level that would provide timely feedback for management and could be uploaded and consolidated at the agency and government levels. This would facilitate the goals of the President's initiative to improve financial performance."³⁸

To provide a consistent approach to rating programs across the Federal government, OMB suggested to use an assessment tool called The Program Assessment Rating Tool (PART). "The Program Assessment Rating Tool (PART) is a series of questions designed to provide. The PART is a diagnostic tool that relies on objective data to inform evidence-based judgments and to assess and evaluate programs across a wide range of issues related to performance."³⁹ As a central to the budget and performance integration initiative, the PART is meant to strengthen the process for assessing the effectiveness of programs by making that process more robust, transparent, and

³⁸ "Budget and Performance Integration: Expected Results," [cited 2004]. Available from http://www.john-mercier.com/bpi_results.htm

³⁹ "Program Assessment Rating Tool (PART): Overview," [cited 2004]. Available from http://www.john-mercier.com/omb_part.htm

systematic. The PART covers seven categories of Federal Programs are: Direct Federal Programs, Competitive Grant Programs, Block/Formula Grant Programs, Regulatory Based Programs, Capital Assets and Service Acquisition Programs, Credit Programs, and Research and Development.

According to OMB in its fiscal year 2006 PART Instruction,⁴⁰ the PART strengthens and reinforces performance measurement under GPRA by encouraging careful development of performance measures according to the outcome-oriented standards of the law and by requiring that agency goals be appropriately ambitious. Therefore, performance measures included in GPRA plans and reports and those developed or revised through the PART process must be consistent. OMB further states that the PART also extends the usefulness of performance information by defining programs that comprise activities about which management and budget decisions are made.

In its review of the first year of PART, by performing a simple regression analysis, GAO⁴¹ found that PART scores have a positive and statistically significant effect on recommended levels in the president's budget, although great deal of variance was left unexplained. To examine the effect of program size on the results, GAO divided all programs equally into three groups-small, medium, and large- based on their fiscal year 2003 funding estimate. Regression then was performed for discretionary programs in each group. The

⁴⁰ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*, www.whitehouse.gov/omb/budget/fy2006/part.html.

⁴¹ United States. General Accounting Office, *Performance budgeting [electronic resource] : observations on the use of OMB's program assessment rating tool for the fiscal year 2004 budget*, (Washington, D.C: U.S. General Accounting Office, 2004)

results suggest that the statistically significant effect of overall scores on budget outcomes exists only for the smaller programs. The regression analysis also shows that PART scores have a positive and statistically significant effect on discretionary program funding. Regression results for mandatory programs showed-as expected-no relationship between PART scores and the level of funding in the President's Budget Proposal. Assessment ratings, however, can potentially affect the funding for discretionary programs either in the President's Budget proposal or in congressional deliberations on spending bills.⁴²

F. GPRA IMPLEMENTATION IN THE FEDERAL GOVERNMENT

Although the act was passed in 1993, the deadline for implementation was 1997, the time when all executive agencies were required to submit a five-year strategic plan to OMB and Congress. To start the implementation of the GPRA, the act mandated a series of pilot projects to provide experience and lessons for government agencies. The pilot projects for performance measurement were undertaken in 28 designations, 14 cabinet departments and 14 independent agencies. Those pilot projects were finally started in fiscal 1998 after being delayed for at least a year by OMB.

During earlier implementation, there were massive critiques of the adequacy of the act to fulfill its goals and objective as well as the willingness of the federal agencies to seriously implement it. In a few months in

⁴² United States. General Accounting Office, *Performance budgeting [electronic resource] : observations on the use of OMB's program assessment rating tool for the fiscal year 2004 budget*, (Washington, D.C: U.S. General Accounting Office, 2004)

1998, the Washington press (which is rarely interested in management issues) had focused unusual attention to the implementation of GPRA, reporting various pronouncements from the GAO, OMB and the Republican leadership in Congress about the relative success or failure of federal agencies to comply with its initial requirements related strategic planning.⁴³

Beryl Radin⁴⁴ also claims that the directions for the implementation of GPRA that did emerge from OMB were variable. She said that in some instances, OMB staff acted as a cheerleader but did not provide clear instructions to agencies on what was expected, while in other instances, OMB provided the sophisticated equivalent of a paint-by-numbers exercise. She continues by observing that there was very little attention to process measures and the relationship between process activities and output or outcome performance.

GAO in its 1999 report⁴⁵ observes that there were a variety and complexity of agency planning and budget structures. These necessarily resulted in a range of approaches to present and link the performance information. Based on their analysis, GAO concluded that some agencies were able to develop informative approaches to connect budgetary resource to results, while some were not. Most of agencies still kept their plans separated with their budget submissions and only 6 of the 35 plans had been fully

⁴³ Radin, *The Government Performance and Results Act (GPRA): Hydra-Headed Monster or Flexible Management Tool?*, 307-316.

⁴⁴ *ibid.*

⁴⁵ United States. General Accounting Office, *Performance Budgeting: Initial Experiences Under The Results Act in Linking Plans with Budgets...* 162173... U.S. GAO..Anonymous (General Accounting Office April 12:, 1999)

integrated into the agency's budget justification. This can be seen in following table:

Table 1: Agencies Status on Allocation of Program Activity Funding to Performance Goals

Nonnumeric characteristics	Allocated program activity funding to performance goals		Did not allocate program activity funding to performance goals		Total
	Number	Percent	Number	Percent	Number
Concentration of spending					
Spending in multiple accounts	10	42	14	58	24
Spending concentrated in one account	4	36	7	64	11
Program activity structure					
Not common	13	39	20	61	33
Common	1	50	1	50	2
Budget structure used in the performance plan					
Proposed change in structure	3	100	0	0	3
Used fiscal year 1998 structure	11	34	21	66	32
Integration of performance plan					
Separate from budget justification	9	31	20	69	29
Fully integrated with budget justification	5	83	1	17	6
Program activities linked to					
Strategic goal	3	50	3	50	6
Strategic objective	3	43	4	57	7
Performance goal	7	50	7	50	14
Other	1	33	2	67	3
None	0	0	5	100	5
Plan Associated dollars with					
Strategic goal	5	71	2	29	7
Strategic objective	3	50	3	50	6
Set of Performance goals	4	100	0	0	4
Performance goal	0	0	1	100	1
Other	1	50	1	50	2
None	1	7	14	93	15
Relationship of program activities to performance goals					
Simple relationship	8	100	0	0	8
Complex relationship	6	27	16	73	22

Source: From GAO Report: GAO/AIMD/GGD-99-67, Appendix II⁴⁶

On January 18, 2001, based on review on the results of some performance budgeting pilots, in its report, OMB reported that the pilots demonstrated that assuring further performance measurement improvements and steadily expanding the scope and quality of performance measures was paramount, and that the existing statute provides

⁴⁶ United States. General Accounting Office, *Performance Budgeting: Initial Experiences Under The Results Act in Linking Plans with Budgets...* 162173... U.S. GAO..Anonymous (General Accounting Office April 12:, 1999).

sufficient latitude for such improvement.⁴⁷ In the same report, OMB also concluded that the pilots raised several key challenges about performance budgeting such as:

- In many instances, measuring the effects of marginal, annual budget changes on performance is not precise or meaningful.
- While continuing to change from an almost total reliance on output measures to outcome measures, it will be much more difficult to associate specific resource levels with those outcomes, particularly over short periods of time.
- Establishing clear linkages between funding and outcomes will vary by the nature of the program and the number of external factors.
- Delays in the availability of performance data, sometimes caused by agencies reliance on nonfederal program partners for data collection, will continue to present synchronization problems during the budget formulation.⁴⁸

In maximizing the effort to support GPRA, in April 2001, OMB introduced a new approach, a sweeping reorganization to "better integrate the budget analysis, management review and policy development roles. OMB also merged OMB's separate budget and management functions into five resource management offices (RMOs). The new offices were assigned responsibility for not only formulating and reviewing the budget request, but also assessing program effectiveness, conducting mid and long range policy and

⁴⁷ United States. General Accounting Office, *Results-Oriented Government: GPRA Has Established a Solid Foundatuon for Achieving Greater Results*, (Washington D.C.: U.S. General Accounting Office, 2004), 270.

⁴⁸ *ibid.*

program analysis, and implementing government wide management policy and program evaluation.⁴⁹

Jonathan D. Breul, a fellow and member of the Board of Trustees of the National Academy Public Administration and former senior advisor to the deputy director for Management in OMB, elaborated his review on GPRA in 2003 after its 10 years of implementation. Of all GPRA features, he found that three features of GPRA have worked and four features have not worked.

Three features that have worked are bipartisan statutory framework, strategic planning, and performance measurement. For bipartisan statutory framework, the GPRA has been supported by both Democrat and Republican, in which it was conceived by Republican senator, passed under a Democrat committee chair and signed by Democrat President. Even, President Bush has articulated the GPRA through its budget performance integration as a key of his Management Agenda.

In implementing strategic planning, there have been dramatic changes in federal agencies. Before GPRA implemented, there was no single strategic plan in the federal government; nowadays it exists in every department and agency. However, according to Breul, the requirement to update the plan at least once every three years has proved to be awkward because it is out of synch with the four-year presidential cycle.

For performance measurement, currently the federal agencies have improved in designing their performance information as useful baselines in assessing future program

⁴⁹ Breul, *The Government Performance and Results Act--10 years later*, 58.

performance. However, Breul observes that developing credible information on program results remains a work in progress, as agencies struggle not only to define their contribution to outcomes- which in many cases are influenced only partially by federal intervention with funds, regulations, etc.- but also to assure the reliability of their performance data.

The four features of GPRA that have not worked are managerial flexibility pilots, performance budgeting pilots, government wide performance plan and a paper exercise. For managerial flexibility, of 61 waiver proposals submitted by pilot project agencies, OMB did not approve any of them, and even three quarters of them were simply not approved for statutory or other reasons. For the remaining proposals, according to Breul, OMB or other central management agencies developed compromises by using authorities that were already available independent of GPRA. Breul further claims several factors contributed to the failure of the managerial flexibility pilots: first were changes in federal management practices and laws that occurred after GPRA was enacted; second is that GPRA was not the only way agencies could seek relief. In addition to other pre-existing authorities, Vice President Gore's National Performance Review had launched about 185 reinvention labs to provide managers added operational authority, quite independent of GPRA.⁵⁰

However, the pilot process did provide some important lessons for government wide implementation. Breul continues by observing that: OMB and the agencies learned that the

⁵⁰ Breul, *The Government Performance and Results Act--10 years later*, 58.

burdens and constraints that confronted managers were often self-imposed by the agency itself or its parent department. For example, the Internal Revenue Services sought a waiver from a requirement that envelopes be purchased through the General Services Administration-even though there was such no requirement by GSA.⁵¹

For performance budgeting pilots, the problem existed because the agencies spent nearly all of their time and effort ensuring that strategic and annual plans would be useful documents and met the requirements of the statute and less devoting their time to the real performance budgeting implementation. This condition made OMB delay the start of the pilot projects by one year. The government wide performance plans also failed because few agencies took any interest in the plans and even OMB did not issue it in the fiscal years 2002 or 2003.

Finally, relating to his statement to consider GPRA as a paper work exercise, Breul claims that:

".....there is a risk of GPRA becoming a hollow, paperwork exercise, requiring reporting that is unrelated to the real work of Congress and the agencies. If one were to stack up all the GPRA documents produced for Congress last year, the pile would measure over a yard high. Reporting is not timely for decision makers, and is too voluminous for users to find useful information (overly footnoted, etc.) appropriators and executive branch decision makers often must wade through reams of paper to find a few kernels of useful information."⁵²

⁵¹ Breul, *The Government Performance and Results Act--10 years later*, 58.

⁵² *ibid.*

In its March 2004 report⁵³, GAO states that the act has laid a strong foundation for a more results-oriented federal government. However, GAO found several challenges that exist to effective implementation of GPRA. The challenges are inconsistencies of top leadership in showing commitment to achieving results, report mixed results in use of performance information, managers confrontation with a range of human capital challenges, persistent challenges in setting outcome-oriented goals, measuring performance, and collecting useful data, crosscutting issues in successful GPRA implementation and limited use of performance information by Congress.

G. DOD IMPLEMENTATION OF GPRA

Defense operations involves over \$1 trillion in assets, budget authority of about \$310 billion annually, and about 3 million military and civilian employees and these operations represents one of the largest management challenges within the federal government.⁵⁴ With these complexities, the development of appropriate measures is a daunting task, one described as taking years, being intrinsically difficult, and requiring a disciplined approach to research and development of needed measures.⁵⁵ Philip G. Joyce observes that:

National defense is a particularly difficult area
for which to develop measures of ultimate

⁵³ United States. General Accounting Office, *Results-Oriented Government: GPRA Has Established a Solid Foundatuon for Achieving Greater Results*, 270.

⁵⁴ United States. General Accounting Office, *Status of Achieving Outcomes and Addressing Major Management Challenges*, (Washington D.C.: U.S. General Accounting Office, 2001), 36.

⁵⁵ Larry C. Juul, *DOD Implementation of the Government Performance and Results Act of 1993*, Anonymous (Virginia: Defense Logistic Agency, 1997)

performance, perhaps because it is almost impossible to determine, without some military conflict, whether the objective of national defense is being achieved. Measurement is further complicated by the concept, as some would argue that the purpose of defense is not winning wars but preventing them. For this reason, many measures of performance for national defense often focus on the quality and readiness of military forces, assuming that a well qualified, appropriately trained military can best achieve whatever goals are paramount at the moment.⁵⁶

However, the efforts to align performance measures into budget would be much easier because DOD has already implemented the PPBS which provides a decision-making framework of budget formulation process and a basis of developing performance measurement system.

Since the earliest implementation of GPRA, The Department of Defense has tried to incorporate the budget development in the context of OMB guidance and in the context of its own budget development and resource allocation decision making process in PPBS. Explicitly, the Under Secretary of Defense (Comptroller), who is also the person responsible for overseeing the implementation of GPRA within DOD, clearly outlined in a 1995 memorandum that general guidelines for DOD implementation include that the plans reflect the most important aspects of Defense; have DOD consensus; are integrated with the DOD Planning, Programming, and Budgeting System (PPBS), and are supported by functional managers who will be responsible for achieving the goals.⁵⁷

⁵⁶ Joyce, 1993 In *ibid*.

⁵⁷ Office of the Under Secretary of Defense, Comptroller, 1995. Department of Defense Corporate Level Performance Goals and Measures under the GPRA - ACTION MEMORANDUM, Washington, DC (April 24) In *ibid*.

Initially, the DOD implemented the GPRA in two ways by sponsoring performance measurement pilot activities and by developing and securing internal consensus on DOD-wide corporate goals. Beginning in 1994, DOD also initiated to develop a set of DOD-wide corporate goals as part of GPRA implementation. Several DOD activities became the pilot projects: Defense Logistics Agency, Army Audit Agency, Army Corps of Engineers (Civil Works), Defense Commissary Agency, Air Combat Command, Navy Carrier Battle Group (CINCLANTFLT), and Army Research Laboratory.

In 1995 DOD made several improvements toward the effort implementing the GPRA such as providing draft DOD mission and vision statements, and seven corporate goals were provided to the Joint Chiefs of Staff (JCS) and Under/Assistant Secretaries of Defense and issuing a new unclassified Annex A to the Defense Planning Guidance (DPG), one of major documents in the PPBS cycle and a classified set of assumptions and instructions developed by the Office of the Assistant Secretary of Defense (Strategy and Requirements) and approved by the Deputy Secretary of Defense that the Components follow in preparing their Program Objectives Memorandum (POM) and budget. The most important idea in the unclassified DPG annex was the development of draft performance measures for use in the DOD DPRA performance plan.

The instructions to the Military Services for preparation of the Department's FY 1997-2001 Program Objectives Memorandum (POM) issued in February of 1995 included the following requirement "Components should review the DOD corporate level goals and develop performance measures that relate to them. During the

program review, components will provide a report to the Program Review Group that identifies these performance measures." 58

In April 1996, GPRA implementation was further escalated by incorporating a GPRA annex in DPG and reflecting DOD mission, vision, and the six corporate level goals refined in the instructions for the FY 1998-2003 POM. These will be adjunct to the National Military Strategy and Quadrennial Defense Review which are intended to be used to satisfy the strategic planning requirements of the GPRA. Specific DOD mission, vision and corporate level goals have been developed and a current published rendition appears below:59

Table 2: United States DOD Mission, Vision, Goals

DOD Mission Statement	The mission of the Department of Defense is to support and defend the Constitution of the United States, to provide for the common defense of the United States, its citizens and its allies, and to protect and advance U.S. interest around the world
DOD Vision Statement	<p>The Department of Defense:</p> <ul style="list-style-type: none"> • Successfully defends the United States, its citizens, interests and allies • Fields the best trained, best equipped, best prepared joint fighting force in the world • Supports alliance/security relationships that protect/advance U.S. security interests • Advances national priorities in concert with Congress, other agencies and the private sector • Serves as a model of effective, efficient and innovative management and leadership
DOD Corporate Level Goals	<p>1. Provide a flexible, ready, and sustainable military force capable of conducting joint operations to execute the National Military Strategy, including the capability to:</p> <ul style="list-style-type: none"> • Rapidly project power to deter and, if necessary, fight and win two nearly simultaneous major regional conflicts (MRCs) in concert with regional allies. • Support friends and allies and shape the international environment in ways favorable to U.S. interests through peacetime overseas presence

58 Office of the Secretary of Defense, Program Analysis and Evaluation, 1995. FY 1997-2001 POM Preparation Instructions. Washington, DC. *ibid*.

59 Maroni, Alice C., 1996. "DOD Implementation of the Government Performance and Results Act," Armed Forces Comptroller, Vol. 4, No.4, (Fall) In *ibid*.

	<ul style="list-style-type: none"> • Conduct a wide range of contingency operations, including peace operations, counter-drug and counter-terrorist activities, noncombatant evacuations, and disaster assistance. • Deter, prevent and defend against the effective use of nuclear, biological, and chemical weapons and their delivery means and prevent the acquisitions of such weapons. <ol style="list-style-type: none"> 2. Recruit and retain well-qualified military and civilian personnel and provide them with equal opportunity and a high quality of life. 3. Sustain and adapt security alliances, enhance coalition war fighting, and forge military relationships that protect and advance U.S. security interests. 4. Maintain U.S. qualitative superiority in key war fighting capabilities (e.g. information warfare, logistics). 5. Reduce costs and eliminate unnecessary expenditures, while maintaining required military capability across all DOD mission areas by employing all modern management tools and working closely and effectively with other government agencies, Congress, and the private sector.
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By launching the Defense Reform Initiative report in 1997, a reform plan for business operations, DOD established a management oversight structure to help sustain the direction and emphasis of these efforts. The requirement to develop annual performance contracts was started in fiscal year 1999. The Defense Reform Initiative was such a performance contracts which were internal management agreements between the principal staff assistants—also known as Under and Assistant Secretaries—in the Office of the Secretary of Defense, the Deputy Secretary, and the defense agencies.

By this performance contract, DOD agencies were required to improve goals and objectives in terms of cost, productivity, quality, and responsiveness to customers and to assess the progress of achieving performance contract goals in annual performance reports. DOD intended the performance contracts to improve oversight of the defense agencies by (1) identifying programming and budgeting issues, (2) providing agency directors with clear

objectives and performance targets, (3) establishing open and direct communications with customers to, among other things, demonstrate how their actions affect agency performance, and (4) changing the way DOD does business.⁶⁰

To support the effort, two agencies were formed. First was the Defense Management Council to oversee Defense Reform Initiative efforts—chaired by the Deputy Secretary and consisting of key civilian and military leaders. Second was the Defense Agency Task Force to oversee the development and review of performance contracts—chaired by the Deputy Director of Resource Analysis in the Office of the Secretary of Defense, Program Analysis and Evaluation (OSD/PA&E) and consisting of senior-level representatives from the Under Secretaries of Defense, the service secretaries, and the Joint Staff.

Four defense agencies: the Defense Logistics Agency, the Defense Finance and Accounting Service, the Defense Contract Audit Agency, and the Defense Health Program were selected to implement performance contracts during fiscal year 1999, and gradually expanded the requirement to a total of 10 agencies by fiscal year 2002. In 2001 Quadrennial Defense Review Report, DOD uses the risk management framework to consider trade-offs among defense objectives and resource constraints. The framework consists of four dimensions of risk:

- **Force management**—the ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of

⁶⁰ United States. Government Accountability Office, *Defense Management: Tools for Measuring and Managing Defense Agency Performance Could be Strengthened*, (Washington D.C.: U.S. Government Accountability Office, 2004), 53.

the force while accomplishing its many operational tasks;

- **Operational**—the ability to achieve military objectives in a near-term conflict or other contingency;
- **Future challenges**—the ability to invest in new capabilities and develop new operational concepts to dissuade or defeat mid- to long-term military challenges; and
- **Institutional**—the ability to develop management practices and controls that use resources efficiently and promote the effective operation of the defense establishment.⁶¹

To develop performance goals and report, DOD also gave the defense agencies the option to use a balanced scorecard. According to GAO, DOD requires 10 of 27 defense agencies with businesslike missions to have either performance plans or balanced scorecards, five defense agencies use performance plans, and the remainder have exercised the option to develop balanced scorecards. In addition, three intelligence agencies have developed performance plans in order to demonstrate how they are coordinating with DOD on strategic and budgetary planning in the post-September 2001 environment.

Despite the above effort, GAO still feels unsatisfactory with DOD efforts. Based on its 2001 report⁶², GAO claims that DOD's progress in achieving the selected outcomes is unclear, because most of the selected program outcomes are complex and interrelated and may require a number of years to accomplish, and also because DOD did not

⁶¹ United States. Government Accountability Office, *Defense Management: Tools for Measuring and Managing Defense Agency Performance Could be Strengthened*, (Washington D.C.: U.S. Government Accountability Office, 2004), 53.

⁶² United States. General Accounting Office, *Status of Achieving Outcomes and Addressing Major Management Challenges*, 36.

provide a full assessment of its performance. GAO continues by identifying some weaknesses in DOD strategies for achieving unmet performance goals in the future:⁶³

Table 3: Weaknesses in DOD strategies for achieving unmet performance goals in the future

Planned Outcome	Weaknesses
The U.S. maintain technological superiority in key war-fighting capabilities	<ul style="list-style-type: none"> • The extent to which DOD has made progress is unclear • Some of the performance goals underlying measures—such as procurement spending and defense technology objectives—do not provide a direct link toward meeting the goal and make it difficult to assess progress • The performance report does not reflect concerns raised about the adequacy of its strategy and the timely introduction of new technologies to operational forces.
U.S. military forces are adequate in number, well qualified, and highly motivated	<ul style="list-style-type: none"> • Performance measures do not adequately indicate its progress toward achieving the outcome of ensuring that U.S. military forces are adequate in number, well qualified, and highly motivated. • With the exception of the enlisted recruiting area, DOD does not identify specific planned actions that it or the services will take to assist them in meeting unmet performance targets in the future. • The report did not discuss the difficulties of the current retention environment, but the report contains little clear articulation of specific actions or strategies being taken to improve future retention
Combat readiness is maintained at desired levels	<ul style="list-style-type: none"> • The level of progress maintaining combat readiness at desired levels is unclear • Some performance measure targets had been lowered, were incomplete, or were not met which make difficult to assess the progress.
Infrastructure and operating procedures are more efficient and cost effective	<ul style="list-style-type: none"> • The extent of the progress to be more efficient and cost-effective is unclear • The targets such as disposing of property, reducing of its logistics response time, and streamlining the acquisition workforce do not hold up to scrutiny and some targets had been lowered or were not met.
Reduced availability and/or use of illegal drugs	<ul style="list-style-type: none"> • DOD FY2000 performance report did not include performance goals or measures related to its outcome, therefore no basis to assess the progress.
Fewer erroneous payments to contractors	<ul style="list-style-type: none"> • DOD had no performance goals directly related to achieving the outcome.

⁶³ United States. General Accounting Office, *Status of Achieving Outcomes and Addressing Major Management Challenges*, 36.

In February and August 2003, DOD issued guidance to refine its approach to performance management and renamed the contracts as performance plans. First implemented in September 2003, according to GAO, the performance plans build on the performance goals and measures established in the performance contracts and are intended to include a more comprehensive set of performance measures that align with agency strategic plans and department-wide goals set forth in DOD's risk management framework.

In 2004 report,⁶⁴ based on its review on three defense agencies DLA, DISA, and DODEA, GAO acknowledges that the performance contracts or performance plans were an important step toward more results-oriented management practices for the defense agencies, however, the contracts would have been more effective tools for informing decision making and managing and measuring agency performance had the agencies included additional attributes associated with results-oriented management. GAO further observes that contracts showed progress made and encouraged discussion among top agency and OSD leaders about actions needed to achieve targeted results, particularly in terms of quality, quantity, cost, and timeliness of services, however, DOD guidance did not require performance contracts to include certain key attributes to be associated with results-oriented management.

The Mercatus Center, George Mason University, which has developed a seven-step process, called "Outcome-Based Scrutiny," that provides a framework for comparing the

⁶⁴ United States. Government Accountability Office, *Defense Management: Tools for Measuring and Managing Defense Agency Performance Could be Strengthened*, 53.

results and costs of programs with similar objectives and assessing the likely impact of reallocating resources to the most effective programs had assessed the agencies annual performance report scorecard. The purpose of the assessment is not to ascertain how well the agencies' reports inform the public about the results they produced so that policymakers and citizens may make informed judgments about the agencies' results. The evaluation factors are grouped under three general categories; does the agency report its accomplishments in a transparent fashion; does the report focus on documenting tangible public benefits the agency produced; does the report show evidence of forward-looking leadership that uses performance information to devise strategies for improvement?

In general, based on its assessment on FY 2003 and 2004, DOD ranked as one of the lowest agencies which inform the performance to the public. The scoring comparison of DOD to other federal agencies for FY 2003 and FY 2004 can be seen in following table:

Table 4: Scoring Comparison Between DOD and Other Federal Agencies for FY 2003 and FY 2004

Government Departments/Agencies	FY 2003 Scoring ⁶⁵				FY 2004 Scoring ⁶⁶			
	T	PB	L	Rank	T	PB	L	Rank
Department of Labor	18	16	14	1	17	17	16	1
Department of State	15	14	14	4	18	17	14	2
Department of Transportation	16	15	17	1	17	16	13	3
Department of Veterans Affairs	17	15	15	3	17	15	14	3
Department of Commerce	10	11	9	16	14	11	15	5
Small Business Administration	10	15	11	7	13	13	13	6
Department of Justice	10	10	11	15	14	12	13	6
Department of Energy	13	9	10	12	14	10	15	6
United States Agency for International Development	8	9	7	21	11	14	12	9
Environmental Protection Agency	13	11	12	7	14	12	10	10
Nuclear Regulatory Commission	13	13	10	7	13	12	11	10
National Science Foundation	10	9	9	17	13	12	11	10
Department of the Interior	13	15	12	6	11	12	12	13
Department of Agriculture	15	13	15	4	14	10	11	13
Department of Education	11	10	11	12	13	10	11	15
Department of Housing and Urban Development	15	9	11	10	10	11	11	16
Department of the Treasury	10	8	9	19	10	12	10	16
General Services Administration	14	11	10	10	12	9	11	16
National Aeronautics and Space Administration	9	7	9	20	10	8	14	16
Social Security Administration	13	8	11	12	12	8	12	16
Office of Personnel Management	9	8	11	17	9	8	13	21
Department of Homeland Security	NA	NA	NA	NA	7	9	11	22
Department of Defense	11	6	6	22	7	6	9	23
Department of Health and Human Services	8	7	8	22	NA	NA	NA	NA

Specifically, for FY 2003, the Mercatus Center observes that for transparency, although the report could be located on DOD website and the performance information is confined to 30 pages in a 400 page document, Management Discussion and Analysis section lists 40 systemic and material weaknesses in the performance data and an appendix contains baseline and trend data back to fiscal 1999 or 2000 for each goal.

For public benefits, first, three of four strategic goals, and about half of the 13 performance goals are

⁶⁵ Mercatus Center. George Mason University, *5th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public (FY 2003)*, Anonymous George Mason University. Mercatus Center, (2004)

⁶⁶ Mercatus Center. George Mason University, *6th Annual Performance Report Scorecard: Which Federal Agencies Best Inform the Public*, Anonymous George Mason University. Mercatus Center, (2005)

outcomes; second, performance measures do not begin to capture the breadth and depth of Defense's operations and do not measure key results related to strategic goals; third, there is no discussion of the recent operations in Iraq and Afghanistan; and fourth, lack of information about the department's actual performance; and finally, voluminous financial information is not linked to strategic goals or measures.

For leadership, first, performance shortfalls disclosed with minimal explanation; second, senior management offers no direct response to nine major management challenges identified by the inspector general, except some proposed legislative changes, third, six Defense issues remain on General Accounting Office's "High Risk List."; and fourth, the efforts are underway to transform the department, but offers few specifics.

For 2004, for transparency, the Mercatus Center observes that first, the report is available via an unintuitive link under "DOD Websites." downloadable as a single PDF document or separate file; second, confusing mix of risk-management strategic objectives, "policy goals," and "performance metrics."; third, report omits legally required assessment by agency head of data shortcomings and efforts to address them, although portions of the report make clear that the department faces severe data problems; fourth, better explanation is needed for baseline and trend data back to fiscal 2001.

For public benefits, first, four strategic objectives are outcome-oriented, and goals and measures are a mix of outcomes and activities; second, department states that the Quadrennial Defense Review Report serves as its strategic

plan; third, existing measures do not come close to capturing the full range of the department's operations; fourth, the department is in the process of developing many new performance measures; and finally, no information links goals and results to costs.

For leadership, first, report says little about the department's most obvious accomplishments; second, when performance shortfalls are acknowledged, accompanying explanations are often perfunctory, third, Inspector general says the department has made progress on major management challenges but provides few specifics; fourth, some initiatives to improve on specific objectives are described; and finally, Deputy secretary's letter says 11 management control weaknesses were corrected, but 46 remain.

H. COMPARATIVE EXPERIENCE WITH OTHER COUNTRIES

1. Britain

The performance initiative was started by launching the Financial Management Initiatives in 1982 which aims to quantify wherever feasible the assessment of whether programs are providing "value for money." It was introduced when Britain experienced a severe pressure on administrative expenditure and contraction in public employment. In announcing FMI, the government sought "in each department an organization and a system in which managers at all levels have a clear view of their objectives and the means to assess, and wherever possible,

measure outputs or performance in relation to those objectives.⁶⁷

McCaffery and Jones observe that:

The Financial Management Initiative called for a radical change in the internal structure and operations of government agencies. Objectives were to be assigned to responsibility centers. Costs were to be systematically identified. They were to be measured on an accrual basis (i.e. matching resources consumed to services delivered) and include not only the direct costs of service delivery but overheads as well. This identification enabled those responsible for meeting particular objectives to be held accountable for the cost or the resources they were consuming.⁶⁸

FMI does not require a uniform approach for all departments. Although there is a common element, an insistence on delegated budgeting in which responsibility for resources is pushed down the line to budget holders (those who actually spend resources and carry out operations) who are to be given sufficient flexibility and incentive to produce value for money⁶⁹, each department is freely developing the managerial style and system suited to its circumstances as long as it is in accordance with certain broad guidelines.

FMI conceives of budgeting as a "contract for performance" in which departments commit themselves to concrete targets in exchange for agreed resources. A 1986

⁶⁷ Cmnd. 8616, op.cit. in Allen Schick, "Budgeting for Results: Recent Developments in Five Industrialized Countries," *Public administration review* 50, no. 1 (1990): 26-34.

⁶⁸ McCaffery and Jones, *Budgeting and financial management in the federal government*, 472.

⁶⁹ HM Treasury, Multi-departmental Review of Budgeting: Final Central Report, 1986, p. 8 in Schick, *Budgeting for Results: Recent Developments in Five Industrialized Countries*, 26-34.

Treasury report defined budgeting as a means of delivering value for money against a background of aims, objectives and targets and it will only fully realize its full potential if it has the support and involvement of management, if there are strong connections between budgets, outputs and results, and if it operates within a supportive central and managerial environment.⁷⁰

The latest major development of central government performance measurement is Public Service Agreements (PSA), which was launched in 1998 and represents a fundamental change in the accountability of government to Parliament and the public. Each department (ministry) is required to provide its own PSA. Each PSA sets out the key performance targets which will contribute to achieving aims and objectives and includes an introduction which explains how these contribute to the Government's overall strategy to meet its key Comprehensive Spending Review (CSR) objectives and to improve productivity.

PSA includes in single document important information on aims and objectives, resources, performance and efficiency targets and related policy initiatives. It has five key elements:

- An introduction, setting out the Minister or Ministers accountable for delivering the commitments, together with the coverage of the PSA, as some cover other departments and agencies for which the relevant Secretary of State is accountable;
- the aims and objectives of the department or cross-cutting area;
- the resources which have been allocated to it in the CSR;

⁷⁰ HM Treasury, Multi-departmental Review of Budgeting: Executive Summary, 1986, in *ibid*.

- key performance targets for the delivery of its services, together with, in some cases, a list of key policy initiatives to be delivered;
- a statement about how the department will increase the productivity of its operations.⁷¹

By this approach, the government is required to measure and improve the public sector's efficiency and thus raise its productivity, the quality and quantity of output delivered for the financial investment made. Each PSA will be monitored by the Government to meet every target. Should a target not be met there is no question of money being deducted from the budget for that department? Nor will additional funding over and above that already allocated be made available simply because a department is failing to meet its targets, but support and advice will be given by the committee.⁷²

To compliment the PSA, in 1998, the British Government also launched the Regulatory Impact Assessments (RIA) program to assess the likely outcomes of regulating in order to try to achieve the right balance between under-regulating, which may fail to protect the public, and over-regulating, which may create excessive bureaucracy. RIA identifies the costs and benefits of a policy proposal and the risks of not acting and is intended to inform the policy decision making process and communicate clearly the objectives, options, costs, benefits and risks of proposals to the public to increase the transparency of the process.

⁷¹ "Public Services for the Future: Modernisation, Reform, Accountability, Comprehensive Spending Review: Public Service Agreements 1999-2002," in The Stationery Office [database online]. Available from <http://www.archive.official-documents.co.uk/document/cm41/4181/psa-4181.htm>.

⁷² *ibid.*

There are three stages on RIA. First, initial RIA carries out at the early policy development stage and helps identify areas where departments need more information. Second, partial RIA which builds on the Initial RIA should accompany the formal public consultation for the proposal. Finally, final RIA, which also on the analysis in the Partial RIA, updates it in the light of consultation and further analysis and information. The Final RIA should accompany legislation when presented to Parliament.⁷³

From the three stages above, it can be noted that the process of RIA, not only provides an evaluation on government policies but it is also accompanied by public involvement to obtain a soundness of analysis to the public interest. RIA has helped contribute to better policy making and reducing the costs to business and policy makers could pay more attention to some aspects of preparing RIAs which includes evaluating a range of options (including not regulating) and encouraging self-regulation where feasible. From an examination of RIAs in 13 departments and agencies, RIAs have been used in accordance with good practice and departments and agencies have applied the RIA process to good effect so that they achieve the five principles of good regulation: transparency, proportionality, targeting, consistency and accountability. For example:

...consultation on the basis of the RIA on the proposed regime for the National Minimum Wage resulted in the adoption of a different method of implementation that avoided £150 million in unnecessary administrative costs to employers. And a RIA on new pesticides regulations showed that

⁷³ "Good Practice: Regulatory Impact Assessments - Introduction to RIAs" [cited 2005]. Available from http://www.nao.org.uk/ria/ria_introduction.htm

employers would incur disproportionate costs from a new mandatory training requirement which were not justified by the benefits. So a non-regulatory option was adopted instead.⁷⁴

2. Canada

Requirement to measure and report on performance in Canada has been started since the early 1970s. The effort has been strengthened by launching the Increased Ministerial Authority and Accountability (IMAA) in 1986, which demands increasing accountability for performance and allows departments to expand authority to reallocate resources within approved funding levels as well as to carry a portion of their capital funds into the next fiscal year budget. The MOU, which was being individually prepared and negotiated in each department, covers a three year period and consists of targets and an assessment of performance geared to the targets.

After a public sector reform to improve the effectiveness and cost efficiency of all government programs in 1994, in 1996 the "Getting Government Right" initiative was introduced to modernize federal programs and has been confirmed as a significant change to a performance based management theory. Department and agencies were encouraged to identify result commitments and to measure and use performance information.⁷⁵ In April 1999, the Performance Management Programme was introduced to provide a framework for equitable performance management for

⁷⁴ "National Audit Office Press Notice: Better Regulation - Making Good Use of Regulatory Impact Assessments," in NAO [database online]. [cited 2005]. Available from <http://www.nao.org.uk/pn/01-02/0102329.htm>

⁷⁵ The Comptroller and Auditor General, *Measuring the Performance of Government Departments*, Anonymous, 2001)

federal executives and to reward the achievement of results. To assure the quality information, government departments adopt quality management as part of overall strategy and conduct internal audits and evaluations of key policies and programs.⁷⁶

Related to the high level objectives and type of measurement the measures are fairly comprehensive both in terms of inputs, outputs, outcomes, etc. and in coverage of the public service. However, concerns continue to be raised about the integration of results with management values; more comprehensive and accessible reporting; and development of targets etc. linking federal, provincial and local agencies.⁷⁷

The agency which is responsible for managing the overall performance management in Canada is the Treasury Board Secretariat (TBS). Its representatives are placed in each department or agency. For reporting to Parliament, TBS shares its authority with federal bodies, within which Federal bodies provide Performance and Annual Reports to Parliament and TBS collates and reports specifically through the Annual Report.

3. Australia

Although until the mid-1980s, financial control was highly centralized, and spending departments had little opportunity or incentive to manage their finances,⁷⁸ interest in performance management dates back to a report

⁷⁶ The Comptroller and Auditor General, *Measuring the Performance of Government Departments*, Anonymous, 2001.

⁷⁷ *ibid.*

⁷⁸ Schick, *Budgeting for Results: Recent Developments in Five Industrialized Countries*, 26-34.

on Australian Government administration in 1976 (this was called the Coombs' Report).⁷⁹ The development of performance measurement system in Australia was initiated in 1980's when the government launched two major reforms: the Financial Management Improvement Program (FMIP) and Program Management and Budgeting (PMB), which seeks to shift focus of budgeting from inputs used to the results achieved. A 1983 government study found that 94 percent of its senior managers perceived financial management as merely spending the total allocated or controlling expenditures against appropriations.⁸⁰ Although FMIP was actively being promoted, it failed to balance the need for central direction with FMIP commitment to allow each department to set up its own management system.

Program Management and Budgeting (PMB) is the key for identifying each organization's objectives and placing them into a framework within which targets can be set for managers at all levels.⁸¹ Schick continues by observing that the program structure arrays objectives in hierarchical order, with those at the lower levels more subject to being expressed in measurable terms than those at the higher levels. The development of Australia's PMB had become more complicated since many difficulties in defining aims and using performance indicators to measure results.

⁷⁹ Beryl A. Radin, "A comparative approach to performance management: Contrasting the experience of Australia, New Zealand, and the United States," *International Journal of Public Administration* 26, no. 12 (2003): 1355.

⁸⁰ Australian Public Service Board and Department of Finance, *Financial Management Improvement Program: Diagnostic study*, February 1984; in Schick, *Budgeting for Results: Recent Developments in Five Industrialized Countries*, 26-34.

⁸¹ Australian Public Service Board and Department of Finance, *Financial Management Improvement Program: Diagnostic study*, February 1984; in *ibid.*

In 1988, the federal government initiated a program for evaluative reviews of all policy areas and ensured that the results were considered in budgetary decision processes. In February 1993, The Management Advisory Board and Management Improvement Advisory Committee issued a paper called "Performance Information and the Management Cycle. It asserted that "performance information is being used in both program management and central decision-making, including in the budget and context; and the quality of performance reporting is improving."⁸²

To coordinate the delivery of public services, the federal government created 'Centrelink' in 1997, an agency functioned as the agency providing 'one-stop-shopping access to a range of government services. More recently the introduction of accrual based accounting and budgeting, so called Output Based Budgeting, has been aimed at providing high level performance information about outputs and outcomes, linked to more accurate resource accounting, so that broad 'cost benefit' judgments could be made.⁸³

Within the new approach, every agency is responsible for performance management. Changes to outputs and performance information are agreed with the relevant Minister and do not require clearance from the Department of Finance and Administration. Each department or agency issues information on resources consumed; outputs (price, quantity, quality) to be delivered and the outcomes to be contributed; actual outcomes and the contribution outputs

⁸² Management Advisory Board Australia, 1993, *Performance Information and the Management Cycle*, AGPS, Canberra. In Radin, *A comparative approach to performance management: Contrasting the experience of Australia, New Zealand, and the United States*, 1355.

⁸³ The Comptroller and Auditor General, *Measuring the Performance of Government Departments*,

made to them; and finally the distinction between outcomes produced by agencies controlled by, and those administered on behalf of government.⁸⁴

Performance is reported publicly in individual agency Annual Reports to Parliament. Department of Finance and Administration has role in advising the development of performance measures and indicators. For the quality assurance of the information, agency audit committees are responsible for internal audit of performance information and no general requirement for audit and validation. However, the Australian National Audit Office (ANAO) performs value for money audits including resource use, delivery of outputs and outcomes, monitoring systems and compliance. Some systemic barriers to performance improvement in Australia are:

- a. No real link between appropriations and objectives. The federal government had a system of so called program budgeting but in reality had program reporting only. The budget process and the legislative appropriations process was largely determined by history.
- b. No clear relationship between the budgeted performance promises and the actual performance report in annual reports.
- c. Responsibility for program definition and reporting was devolved almost entirely to departments and agencies, with little legislative or executive oversight. This was reinforced by a cabinet system in which the specific cabinet minister charged with responsibility for a department was not likely to take "orders" from a peer.⁸⁵

⁸⁴ The Comptroller and Auditor General, *Measuring the Performance of Government Departments*,

⁸⁵ Speech by Stephen Bartos, Australian Department of Finance, April 26, 2000 In Radin, *A comparative approach to performance management: Contrasting the experience of Australia, New Zealand, and the United States*, 1355.

I. CHAPTER SUMMARY

The GPRA has been a prominence best practice in performance based budgeting implementation. It is caused by a series of effort of performance oriented budgeting experiences from the first Hoover Commission, PPBS MBO, ZBB, and finally the GPRA. Albeit a lot of criticisms in the earlier of its implementation, GPRA has proved itself to be sound government performance evaluation tool facing enormous complexities in the public sectors. The important aspects that make GPRA successful are, first, it is enacted by the law so that it has supported by both President and Congress; second, it is included in the President Management Agenda in which President George W. Bush put this effort as one of the important program during his presidency; finally, OMB has opened the involvement of the stakeholders such as GAO, Congress, agencies, academics, to provide any feedback towards its implementation and to enrich the development of the elements of GPRA.

In the DOD, facing the complexities such as defense is particularly difficult area for which to develop measures of ultimate performance and it involves over \$1 trillion in assets, budget authority of about \$310 billion annually, and about 3 million military and civilian employees and these operations represents one of the largest management challenges within the federal government, the performance evaluation tools generated from the PPBES system has also provided a decision-making framework of budget formulation process and a basis of developing performance measurement system. Several pilot projects such as Defense Logistics Agency and the Defense Finance and Accounting Service can be set as best practice in defense business.

Flexibility is one of the key implementation in DOD, in which after having the framework consists of four dimensions of risk: force management, operational, future challenges, and institutional, DOD gave the defense agencies the option to use a balanced scorecard. Quick feed back has also been provided in implementing the GPRA. For example, facing some weaknesses in DOD strategies for achieving unmet performance goals in the future, DOD quickly replied by issuing a guidance to refine its approach to performance management and renamed the contracts as performance plans that intended to include a more comprehensive set of performance measures that align with agency strategic plans and department-wide goals set forth in DOD's risk management framework.

The results of Outcome-Based Scrutiny tool from the Mercatus Center, George Mason University probably can be used as the third party judgment towards GPRA implementation, because, academically, it inform the public about the accountability perspective, transparency, public benefits, and leadership, of the GPRA implementation results produced by the agencies so that policymakers and citizens may make informed judgments about the agencies' results. This tool provides more sound on how government manages every Federal tax dollar and what level and quality of government service are returned to the taxpayer. Specifically, DOD still ranks as one of the lowest agencies which inform the performance to the public.

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III. PERFORMANCE BASED BUDGETING

A. INTRODUCTION

This chapter lays out the literature review of Performance Based Budgeting (PBB), a prominent reform around the world. Section B reviews overview of PBB about its definitions and principle. Section C, D, and E provides the literature review of Performance Based Budgeting including strategic planning, performance measures and linking performance to budget. A summary is provided at the end of the chapter in Section F

B. OVERVIEW

Budgeting is essentially the allocation of resources; it inherently involves setting priorities. In its broadest sense, the budget debate is the place where competing claims and claimants come together to decide how much of the government's scarce resources will be allocated across many compelling national purposes.⁸⁶

In traditional line item budgeting system, government expenditure is set-up based on line items or major object expenditure. In this system, budget control is done by stating the limits of spending on each item in the budget allocation. For the addition or deletion, incrementalism theory has played role. "Incrementalism" is widely held budgetary concept, which attributed to the works of Aaron Wildavsky and further developed by Richard Fenno. It was a bottom-up method of developing the budget through a series

⁸⁶ United States. General Accounting Office, *Performance Budgeting: Current Development and Future Prospects*, (Washington D.C.: U.S. General Accounting Office, 2003), 24.

of political adjustments that tended to increase the budget base in small controlled increments⁸⁷

In practice, line item budgeting with its incrementalism concept does not provide information about the reasons why government made the expenditures or even does not provide the aspects of efficiency and effectiveness of the programs. Decisions about future spending are taken without sufficiently examining the outputs or outcomes of the government programs. It can be said that without having an adequate examination of efficiency and effectiveness aspects, government accountability is still arguable. Here, performance based budgeting or performance budgeting can be used as a tandem to complement the line item budget system.

However, it remains questionable whether after performance budgeting is implemented, the other budgeting process will not be used or whether the performance information is the only consideration in formulating the budget and allocating the resources. While GAO states that performance budgeting cannot replace the budget process as it currently exists, but it can help shift the focus of budgetary process as oversight activities by changing the agenda of questions asked in these processes;⁸⁸ Phillip G. Joyce,⁸⁹ on the other hand, states that agencies may replace traditional line-item budgets with a system that grants program managers greater flexibility in managing their resources but holds them accountable for achieving program

⁸⁷ Pitsvada and LoStracco, *Performance budgeting--the next budgetary answer. But what is the question?*, 53.

⁸⁸ United States. General Accounting Office, *Performance Budgeting: Current Development and Future Prospects*, 24.

⁸⁹ Joyce, *Performance Based Budgeting*, 597-619.

results. He continues by observing that even if government-wide decisions on resource allocation are not affected, agencies may find measures that are valuable for improving their management of a given level of resources, regardless of whether the use of those measures results in a significant shift of resources from one program or agency to another. Also, the government or particular agencies may use performance measures as a part of reports on their accomplishments.

In general, Performance Based Budgeting is a set of process of translating strategic planning framework into performance measures in terms of input, output, and outcome to be tied into resource allocation in budgeting process. The concept of performance budgeting assumes that a systematic presentation of performance information alongside budget amounts will improve budget decision-making by focusing funding choices on program results.⁹⁰ Melkers and Willoughby describes performance based budgeting as a more diverse set of requirements, blending various aspects of current public management trends, including outcome measurement, performance measurement systems, strategic planning and benchmarking.⁹¹ From definitions above, at least, three principles that must be established: strategic planning, performance measurement and linking performance to budget.

⁹⁰ United States. General Accounting Office. Accounting and Information Management Division, *Performance budgeting [microform] : fiscal year 2000 progress in linking plans with budgets*, Anonymous (Washington, D.C. (P.O. Box 37050, Washington, D.C. 20013): The Office, 1999), 11, 2.

⁹¹ J. E. Melkers and K. G. Willoughby, "Budgeters Views of State Performance-Budgeting Systems: Distinctions across Branches," *Public administration review* 61, no. 1 (2001): 54-64.

C. STRATEGIC PLANNING

Strategic planning is the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives, and on the policies that are to govern the acquisition, use, and the disposition of these resources.⁹² It blends futuristic thinking, objective analysis, and subjective evaluation of goals and priorities to chart future courses of action that will ensure the long-run vitality and effectiveness of the organization.⁹³

Strategic planning is maybe such a new concept in public sector management which has been more familiar with the long term planning concept. The successful of this idea in private sector has brought public manager attention on how to apply it in the complex world of public sector. According to Robert B. Denhart, ⁹⁴ the reasons for public organizations to undertake strategic planning efforts are many - to give clarity and direction to the organization, to choose from among competing goals and activities, to cope with expected shifts in the environment, and to bring together the thoughts and ideas of all participants in the work of the organization.

⁹² Schick, *Budgeting for Results: Recent Developments in Five Industrialized Countries*, 26-34.

⁹³ Poister, Theodore H., and Gregory D. Streib, "Strategic Management in the Public Sector," in *Performance Based Budgeting*, ed. Miller, Gerald J., W. Bartley Hildreth, and Jack Rabin. Anonymous (Colorado: Westview Press, 2001), 283-305.

⁹⁴ Robert B. Denhardt, "Strategic Planning in State and Local Government," in *Performance Based Budgeting*, ed. Miller, Gerald J., W. Bartley Hildreth, Jack Rabin. Anonymous (Colorado: Westview Press, 2001), 233-244.

A strategic planning is different with a long range planning. Robert B. Denhart⁹⁵ points three ways why strategic planning is different with a traditional long range planning. First, while traditional planning activities are concerned primarily with establishing goals or objectives over a period of time, but less concerned with specific steps that should be undertaken to achieve those goals, strategic planning consists of a series of action steps will develop as part of the planning process and activities guidance for organization in the immediate future in which it takes the future into account, but improves decisions in the present.

Second is its attention to environmental complexity in which the organization is not assumed to exist in a vacuum, but rather both the organization's objectives and steps to achieve those objectives are seen in the context of the resources and constraints presented by the organization's environment.⁹⁶ The last distinction is that strategic planning, especially in the public sector, is a process that must involve many individuals at many levels of the organization.

In designing the components of strategic planning, there are two approaches that can be used as benchmarking. First, GPRA has three components: mission statement, general goals and objectives, and approaches and strategies

⁹⁵ Robert B. Denhardt, "Strategic Planning in State and Local Government," in *Performance Based Budgeting*, ed. Miller, Gerald J., W. Bartley Hildreth, Jack Rabin. Anonymous (Colorado: Westview Press, 2001), 233-244.

⁹⁶ *ibid.*

to achieve the General Goals and Objectives.⁹⁷ Second, the Balanced Scorecard approach has seven components: mission, vision, core values, goals, strategy, strategic map and objectives.⁹⁸

A mission statement is the core purpose of organization. It brings the agency into focus and explains why the agency exists and tells what it does.⁹⁹ A mission statement should be simple, clear, inspire and easy to understand. It clarifies the purpose of the organization and clearly articulates it to all stakeholders. In designing the mission statements, several key questions as following have to be answered:

- Is the mission results oriented, and does it fulfill a public need? If not, how could the mission better focus on results?
- Is the mission based on statute, and if so, does it cover all relevant statutes?
- Are parts of the agency's functions or activities not covered in the mission statement? Why?
- Are there developments (e.g. in technology or competition) that suggest the mission and corresponding legislation need to be revised or updated?
- Is the agency's mission similar to those of other agencies and if so, has coordination occurred? Does unwarranted duplication of missions exist?
- How is the agency's mission differentiated from those of other agencies with similar missions? Are there unique agency characteristics that

⁹⁷ United States. General Accounting Office, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, (Washington D.C.: U.S. General Accounting Office, 1997), 37.

⁹⁸ Howard Rohm, *Improve Public Sector Results with A Balanced Scorecard: Nine Steps to Success*. Anonymous U.S. Foundation for Performance Measurement, 2002)

⁹⁹ United States. General Accounting Office, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, 37.

give it an advantage in fulfilling its mission, such as location of field offices or staff expertise? ¹⁰⁰

Values are the time less principles that guide an organization and they represent the deeply held beliefs within the organization and are demonstrated through the day to day behaviors of all employees.¹⁰¹ Values must support the mission and help achieve organizational objectives. Patrick Lencioni¹⁰² suggests organizational values should be "aggressively authentic". Authentic in this context means developing values that are consistent with your organizational objectives, not writing something that would be well suited for the inside of a greeting card. Johnson and Johnson CEO Ralph Larsen stated that:

".....the core values embodied in our credo might be a competitive advantage, but that is not why would have them. We have them because they define for us what we stand for, and we would hold them even if they became a competitive disadvantage in certain situations".¹⁰³

A vision statement provides a word picture of what the organization intends ultimately to become in the future and while mission statements are often abstract, the vision should contain as concrete of the desired state as possible and provide the basis for formulating strategies and objectives. ¹⁰⁴ Peter Senge has observed: "Vision translates

¹⁰⁰ United States. General Accounting Office, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, 37.

¹⁰¹ Paul R. Niven, *Balanced Scorecard Step-by-Step For Government and Nonprofit Agencies*, (New Jersey: John Wiley and Sons, Inc, 2003), 3005.

¹⁰² Patrick M. Lencioni, "Make Your Values Mean Something," *Harvard Business Review*, July 2002, pp.113-117. In *ibid.*

¹⁰³ *ibid.*

¹⁰⁴ *ibid.*

mission into truly meaningful intended results-and guides the allocation of time, energy, and resources. In my experience, it is only through a compelling vision that a deep sense of purpose comes alive".¹⁰⁵

According to Niven, to be effective, vision statements should be concise, balanced external and internal elements, appealing to all stakeholders, consistent with mission and values, verifiable, feasible and inspirational. He continues by providing ten questions to develop vision statement:

- How would the world be improved or changed if we were successful in achieving our purpose?
- What are the most important services that we should continue to provide, change, or begin to offer in the next three years?
- What staffing and benefits changes do we need to implement to better achieve our purpose?
- How will our elected officials or board of directors assist us in achieving our purpose?
- What resource development (funding) changes to influence to better achieve our purpose?
- What facilities and technology changes to implement to better achieve our purpose?
- What infrastructure, systems, or communication changes do we need to implement to better achieve our purpose?
- How could we more effectively or efficiently provide our service? If you could only make three changes that would significantly impact our ability to provide quality services to our clients/customers, what should these be?
- What makes us unique?
- What do our clients/customers consider most important in our provision of services? What do our clients/customers need from us?

¹⁰⁵ Patrick M. Lencioni, "Make Your Values Mean Something," Harvard Business Review, July 2002, pp.113-117. In Paul R. Niven, *Balanced Scorecard Step-by-Step For Government and Nonprofit Agencies*, (New Jersey: John Wiley and Sons, Inc, 2003), 3005.

General goals and objectives or strategic goals explain what results are expected from the agency's major functions and when to expect those results.¹⁰⁶ Goals and Objectives should be concise, realistic, outcome-oriented and must be stated clearly in communicating what is to be achieved and measured or assessed. In public sector, the goals and objectives should be linked to government policy decisions to create the basis for performance reporting. Several key questions that should be addressed in designing goals and objectives are:

- Do the goals cover the major functions and operations of the agency? If not, what functions and operations are missing? Are the goals logically related to the mission?
- Are the goals results oriented, such as to reduce crime or have fewer workplace accidents? Or, are they focused more on outputs, such as inspecting more workplaces? If so, why?
- If the goals are not expressed in a quantitative or measurable form, are they expressed in a manner that allows the agency and congress to assess whether goals are achieved?
- Are all the agency's goals and priorities consistent with congress goals and priorities? When differences exist. Why do they exist, and can they be resolved?
- Do the agency's goals appear similar to the goals in plans of other agencies that perform related activities? If so, are these sets of goals complementary or duplicative?
- Are the goals targeted at results over which the agency has a reasonable degree of influence (may not apply to all agencies)?¹⁰⁷

¹⁰⁶ United States. General Accounting Office, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, 37.

¹⁰⁷ *ibid.*

Strategies describe the means to achieve the objectives. It represents the broad priorities adopted by an organization in recognition of its operating environment and in pursuit of its mission.¹⁰⁸ GAO states that strategies help aligning an agency's activities, core processes, and resources to support achievement of the agency's strategic goals; mission and strategies should also outline how the agency will communicate strategic goals throughout the organization and hold managers and staff accountable for achieving these goals.¹⁰⁹ Some key questions to be answered in designing strategy are:

- How are the goals to be achieved? Are the strategies logically linked to the goals and the day-to-day activities of the managers and staff? Are they consistent with historical resource trends?
- What steps will the agency take to align activities, core process, workforce, and other resources to support mission related outcomes?
- What are the required resources, such as human, capital, and information? Are new regulations, flexibilities, user fees, or legislation required?
- What steps is the agency taking to ensure that managers have the authority they need to achieve results? Are these strategies to hold managers accountable for results? Are there any strategies that focus on providing incentives for managers and other staff to achieve the goals?
- Do managers have the knowledge, skills and abilities to implement PBB? If not, what strategies are needed to develop the necessary capacity?

¹⁰⁸ Niven, *Balanced Scorecard Step-by-Step For Government and Nonprofit Agencies*, 3005.

¹⁰⁹ United States. General Accounting Office, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, 37.

- Are technological advances necessary to successfully execute the strategies? If so, how likely are those advances?
- What, if any, alternative strategies were considered?
- Are there programs or activities that need to be eliminated, created, or restructured to achieve the goals?¹¹⁰

In performance budgeting framework, McGill states that performance budgeting includes both a strategic framework and the mechanics of resource allocation in relation to performance.¹¹¹ The framework of strategic planning will direct agency in creating specific targets, performance measures, and mechanism of resource allocation in quantifiable data to provide meaningful performance information about program outcomes.

These strategic contexts will help decision makers in budgeting process to rely not only based on qualitative performance information but also based on quantitative performance information. Here, it can be noted that strategic planning management plays an important role in PBB. A performance budget is one which presents the purposes and objectives for which funds are required, the cost of the programs proposed for achieving those objectives, and quantitative data measuring the accomplishment and work performed under each program.¹¹²

¹¹⁰ United States. General Accounting Office, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, 37.

¹¹¹ Ronald McGill, "Performance budgeting," *The International Journal of Public Sector Management* 14, no. 4/5 (2001): 376.

¹¹² Burkhead, Jess, 1956. *Government Budgeting*. New York: John Wiley. In Juul, *DOD Implementation of the Government Performance and Results Act of 1993*,

The important role of strategic management also provides an idea that PBB will only fit in the organization in long term organization goals. In practice, it happens because changes to the budget process are interconnected and include a shift from the traditional annual budget cycle to multi year frameworks as the basis for the annual budget process. Performance based budgeting can function somewhat like strategic budgeting since it will match within organization, the mission, goals and objectives, and strategies. Appropriate performance measures that accurately reflect agency efforts an accomplishment are essential for a successful planning and budgeting process.¹¹³

In the short term, performance based budgeting is not likely to have any short-run effect on the way resources are allocated. The reason for that is because to the success of government policy can not be judged in short run. There might be delay between outputs and outcomes, or it may not be clear how much of a change in an outcome can be attributed to a program or policy. The design of performance indicators and establishing policy objectives requires a considerable amount of lengthy consensus building and performance indicators must remain stable over time to permit internal assessment of trends and to make the comparative judgments needed to assess progress.¹¹⁴

However, in practice, the underlying assumptions that PBB will fit in long term is hard to be accomplished

¹¹³ ARMY WAR COLL CARLISLE BARRACKS PA and Ronald L. Harrell, *Financial Management Transformation (*Performance* *Based* *Budgeting*)*, Anonymous , 2002), 35.

¹¹⁴ Frank A. Schmidlein, "Assumptions Underlying Performance-Based Budgeting," *Tertiary Education and Management* 5, no. 2 (1999): 157.

because changes in policies and administration. Schmidtlein observes that:

.....these conditions commonly do not exist because government policy objectives typically are ambiguous and subject to frequent shifts. Another issues related to this assumptions is that as key officials come and go and political parties with differing values come to power, budgets are not followed exactly as prescribed when they were enacted because new political deal, circumstances, understanding arise for tactical and partisan advantage as well as for substantive reasons.¹¹⁵

D. PERFORMANCE MEASURES

Performance budgeting assumes that future budget allocations will be influenced by performance-informed decisions (which presupposes a targeted strategic framework from which to make such decisions).¹¹⁶ It involves developing indicators of institutional performance and estimating the resources required to maintain or achieve selected levels of performance.¹¹⁷ Performance indicators has to be clear enunciated so that performance information can help managers to understand the performance of organization, and to set clear targets so that people understand the expected level of performance.

According to Kouzmin, there has been evolution of determining the performance measurement. Whereas in the 1980s the focus was on the "three Es", economy, efficiency, and effectiveness, in the 1990s attention has shifted to

¹¹⁵ Frank A. Schmidtlein, "Assumptions Underlying Performance-Based Budgeting," *Tertiary Education and Management* 5, no. 2 (1999): 157.

¹¹⁶ McGill, *Performance budgeting*, 376.

¹¹⁷ Schmidtlein, *Assumptions Underlying Performance-Based Budgeting*, 157.

quality and consumer satisfaction.¹¹⁸ The quality and consumer satisfaction, which emphasis the efficiency and effectiveness of allocating resources, has left out the economy perspective. Especially in developed countries, economy perspective is assumed as anti-thesis for having a good quality because lowest prices are assumed as bad quality.

However, in accordance with the evolution of performance measurement as mentioned above which according to government worldwide is intended to enhance the quality of delivery of services, people are still questioning the adequacy of government service quality. Although the cost of services is rising due to lack of economy perspective, the quality is inappropriate. Government accountability is still big question that can be answered by the government. Therefore, excluding the economy perspective in determining the cost of services is not the answer.

Performance measures will provide information on what traditional "incremental" budgets or financial statements concerned with the results of the services delivered by the government. The task of measuring the performance in public sector is complex and difficult due to its intangible outputs, quality variations, and complex environment. The process of government to measure and judge its performance by determining how effectively and efficiently taxpayer resources are being used for the delivery of services and the administration of programs is critical to enhance operational accountability of governments.

¹¹⁸ Alexander Kouzmin et al., "Benchmarking and performance measurement in public sectors Towards learning for agency effectiveness," *The International Journal of Public Sector Management* 12, no. 2 (1999): 121.

Performance measures can be classified into five categories outputs, outcomes, economy, efficiency and effectiveness. Outputs measure gauge the amount of services delivered to citizens and allow one to examine what services and the quantities of services an entity is providing.¹¹⁹ It refers to the internal activities of a program (i.e., the products and services delivered) and describes the level of activity that will be provided over a period of time, including a description of the characteristics (e.g., timeliness) established as standards for the activity.¹²⁰

Outcomes are what an organization is trying to achieve. It is the impact sought or expected by government in a given policy arena, which has focus on change and consequences: what effect government can have on the community, economy and/or national interest.¹²¹ Outcomes are important to the effectiveness of programs/activities but may be more difficult to measure and assess than the inputs and outputs and it will often be influenced by external factors and may require long-term rather than short-term assessment.¹²² Outcome measures are the ultimate results that benefit the public. One of the biggest problems in designing performance measures is how to define

119 "Performance Measurement: Connecting Strategy, Operations and Actions," [cited 2005]. Available from http://64.233.179.104/search?q=cache:awZcgotnKlUJ:www.idii.com/wp/donovan_perform.pdf+%22Performance+measurement:+connecting+strategy,+operations+and+actions%22&hl=en&client=firefox-a.

120 Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

121 Australian National Audit Office, *Performance Information in Portfolio Budget Statements: Better Practice Guide*, (Canberra ACT: Australian National Audit Office, 2002), 42.

122 Auditing Standards Committee, International Organization of Supreme Audit Institutions, *Auditing Standards*, June 1992)

the outputs and outcomes in an organization. Sometimes it is hard to differ between the two for public managers due to its intangible characteristics. An example of output and outcomes measures is as shown here:¹²³

Table 6: Example of Outputs and Outcomes measures

Outputs	Outcomes
Number of housing units rehabilitated.	Increases in equity (property value) of rehabilitated houses for low-income families as a result of targeted assistance.
Number of businesses assisted through loans and training.	Percent of businesses that remain viable 3 years after assistance.
Number of people served by water/sewer projects.	Increased percent of people with access to clean drinking water.
Number of acres of agricultural lands with conservation plans.	Percent improvement in soil quality; dollars saved in flood mitigation.

In establishing the outcome measures, in some cases, it is hard for agencies and departments to design the outcome measures. In this matter, agencies can address this problem by developing intermediate outcomes, that is, partial outcomes which are achieved within a shorter time frame and this would enable the better identification of target groups and provide a more appropriate basis for the development output.¹²⁴ Following example can be use as a drilling down to get to the right outcome measure for a job training program:¹²⁵

¹²³ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

¹²⁴ Australian National Audit Office, *Performance Information in Portfolio Budget Statements: Better Practice Guide*, 42.

¹²⁵ Office of Management and Budget, *Performance Measurement Challenges and Strategies*, Anonymous Office of Management and Budget, 2003), 1-13.

Table 7: Performance Measures on Job Training Program

o Dollars appropriated to the program o Number and size of grants <i>Why do these matters? What do they buy?</i>	Inputs: Funding (Federal and perhaps State and local)
o Number of classes attended by program participants o Number of people trained <i>Why do these matters? What result do they produce?</i>	Outputs: Products (e.g., classes taught, service delivered, participants serviced)
o Number of people with useful skills o Number of people who get a job after leaving the program <i>Why do these matters? Is this the result the public is seeking?</i>	Intermediate outcomes: (e.g., new knowledge, increased skills, changed behavior)
o Number of program participants who remain employed for a specified time and increase their earnings o Number of people who are self-sufficient	Program outcome Societal outcome

An economy measure looks at the costs of acquiring the inputs which compare the resources available to be allocated and those used as input for performing an activity. Economy, which occurs where equal-quality resources are acquired at lower prices, is minimizing the cost of resources used for an activity, having regard to the appropriate quality and focus on the cost of the inputs and processes.¹²⁶ Economy not only means to have the lowest price but also to have cost reduction in allocating the resources to save the taxpayer money.

An efficiency measure looks at whether the maximum outputs for the inputs that go into the process have been achieved. Efficiency is 'the relationship between the output, in terms of goods, services or other results, and the resources used to produce them and it exists where the

¹²⁶ Auditing Standards Committee, International Organization of Supreme Audit Institutions, *Auditing Standards*,

use of financial, human, physical and information resources is such that output is maximized for any given set of resource inputs, or input is minimized for any given quantity and quality of output."¹²⁷ Sound efficiency measures capture skillfulness in executing programs, implementing activities, and achieving results, while avoiding wasted resources, effort, time, and/or money.¹²⁸

According to OMB, the best efficiency measures capture improvements in program outcomes for a given level of resource used, for example, a program that has an outcome goal of "reduced energy consumption" may have an efficiency measure that shows the value of energy saved in relation to program costs. However, it may be difficult to express efficiency measures in terms of outcomes, because in some cases, acceptable efficiency measures could focus on how to administer the program better.¹²⁹ OMB continues by stating that meaningful efficiency measures consider the benefit to the customer and serve as indicators of how well the program performs, for example, reducing processing time means little if error rates increase. A balanced approach is required to enhance the performance of both variables in pursuit of excellence to customers. In these instances, one measure (e.g., increase in customer satisfaction) may be used in conjunction with another complementary measure (e.g., reduction in processing time).¹³⁰

¹²⁷ Auditing Standards Committee, International Organization of Supreme Audit Institutions, *Auditing Standards*,

¹²⁸ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

¹²⁹ *ibid.*

¹³⁰ *ibid.*

Effectiveness measures gauge the quality and productivity in the delivery of a service to citizens and it has characteristics including citizen's evaluations, timeliness, readiness, conditions and accuracy.¹³¹ It looks at whether the outputs of the program lead to the desired outcomes. According to INTOSAI, ¹³² effectiveness is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity and it addresses the issue of whether the program/activity has achieved its objectives. INTOSAI also states that when focusing on effectiveness, it is important to distinguish between the immediate outputs (or products) and the ultimate impacts (or outcomes).

In designing performance measures in accordance with agencies goals and objectives as well as their outcomes, it is possible that among agencies have the same goals, objectives and outcomes. Crosscutting is a performance measurement method to evaluate interdependent government programs which have similar purposes, goals, and outcomes. This could be an internal crosscut, programs within the same agency, or external crosscut, programs across multiple agencies. Crosscutting would identify exemplary goals and practices, common measures of performance, possible tradeoffs in management and budget decisions, and opportunities for better coordination among programs.¹³³

¹³¹ Donovan, *Performance Measurement: Connecting Strategy, Operations and Actions*,

¹³² Auditing Standards Committee, International Organization of Supreme Audit Institutions, *Auditing Standards*,

¹³³ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

Crosscutting can be designed by having a joint working among departments and agencies which have similar outcome. In choosing the most appropriate measurement method for encouraging joint working, factors to be considered include: (1) the number of departments and other stakeholders involved; (2) the degree of stakeholder interpretation of national objectives needed for cost effective pursuit of objectives; (3) the priority accorded the objectives; and (4) the costs and burdens of given approaches to setting targets and monitoring progress.¹³⁴

In United States, crosscutting is designed in PART assessment. Unlike a combined PART, a crosscut would still examine programs in individual PARTs. By having the crosscut, individual assessment of programs in individual PART and the recognition of the distinctive features among programs still can be evaluated. However, according to OMB, the following common themes could be used to compare the programs in a meaningful crosscut:

- What is the target population for each program?
- What products and services are provided (common output measures as appropriate)?
- How well products and services are provided (common output efficiency measures as appropriate)? What impact have the programs achieved (common outcome measures and common outcome efficiency measures as appropriate)?¹³⁵

¹³⁴ The Comptroller and Auditor General, *Measuring the Performance of Government Departments*,

¹³⁵ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

After the performance measures are gauged, it is important to compare the results against established standards. Standards can be factors such as the level and quality of client services and are set with the aim of defining the appropriate level of performance expected to be delivered. Standards or benchmarks could be set by professional organizations, the performance of other government entities, composite indices of select government entities, or pre-set targets or previous performance of entity.¹³⁶

However, a comprehensive set of benchmarked results in the public sector have not been embraced by the government it self or professionals. An alternative to replace the benchmarks or standards is to use performance targets and baselines just like United States has in GPRA. Baselines are the starting point from which gains are measured and targets are set and the baseline year shows actual program performance or prior condition for the given measure in a specified prior year.¹³⁷ Targets refer to improved levels of performance needed to achieve the stated goals and they must be ambitious (i.e., set at a level that promotes continued improvement) and achievable given program characteristics; each target should be quantifiable and must have a timeframe (e.g., year(s) in which the target level is to be achieved). In most instances, these targets should be quantifiable.¹³⁸

¹³⁶ Bourne, Mike and John Mills, "Designing, Implementation and Updating Performance Measurements Systems," *International Journal of Operations & Production Management* 20 (2000): 754-771.

¹³⁷ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

¹³⁸ *ibid.*

E. LINKING PERFORMANCE TO BUDGET

Finally, the process that must be established is linking performance to budget. The performance measurement is tied directly to the budget process comprehensively and elaborates it to evaluate organization's performance in terms of outcome, output, and impact. It will give a meaningful indication of how the dollars are expected to turn into results and it can be distinguished from an Object Class budget in a fundamental way because while in the object class budget what each dollar will be spent would be showed, in the performance budgeting, inherently, what each dollar will accomplish also would be showed.¹³⁹

In integrating performance into the budget, performance measures should capture the essence of the policy objective and the contribution of program activities to the outcome. Performance information could help policymakers address a number of questions, such as whether programs are contributing to their stated goals, well coordinated with related initiatives at the federal level or elsewhere, and targeted to those most in need of services or benefits. It can also provide information on what outcomes are being achieved, whether resource investments have benefits that exceed their costs, and whether program managers have the requisite capacities to achieve promised results.¹⁴⁰

In this stage, at least there three important point that has to be considered in how to link performance to budget resources. First is the budget alignment in which

¹³⁹ "Performance Based Budgeting: Overview," [cited 2004]. Available from <http://www.john-mercer.com/pbb.htm>

¹⁴⁰ United States. General Accounting Office, *Performance Budgeting: Current Development and Future Prospects*, 24.

structural and format changes to congressional budget justifications, and in some cases, appropriations accounts to better align resources with programs and performance. The need to change the account structure is important because some performance goals cut across multiple program activities and budget accounts or a single program can consist of multiple accounts. Budget restructuring efforts have sought to help reframe budget choices and to focus decisions more on the expected results of budget resources and less on inputs or line items.¹⁴¹

The second aspect is costing method. There are two methods that can be used: full cost and activity based costing (ABC). Full cost is the way in which changes to certain budget resources are distributed or measured to better reflect where and when resources are consumed. OMB defined full cost as the sum of all budget resources used by an agency to achieve program outputs.¹⁴² The budget resource can include not only traditional elements of costs, such as salaries and expenses, procurement of goods and services, grants, and transfers but also the cost of all support services and goods used and provided centrally which can be including accruing retiree pension and health benefits. Budgeting for the full cost of resources where they are used, making budget program and activity lines more parallel with outputs, and, where useful, improving alignment of budget process.¹⁴³

¹⁴¹ United States. General Accounting Office, *Performance Budgeting: Effort to Restructure Budgets to Better Align Resources with Performance* (Washington D.C.: U.S. General Accounting Office, 2005), 183.

¹⁴² OMB, Circular No. A-11 (July 2002), p. 221-5 in *ibid.*

¹⁴³ *ibid.*

Full cost is generally viewed as including both direct costs, costs that can be specifically identified with a cost object, such as an output, materials, and supplies used in work, office space, and equipment and facilities that are used exclusively to produce the output,¹⁴⁴ and indirect cost, costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs such as general administrative services, general research and technical support, security, rent, and operations and maintenance costs for building, equipment and utilities.¹⁴⁵

Activity Based Costing (ABC) is used to identify, describe, assign costs to and report on agency operations; it identifies opportunities to improve business process effectiveness and efficiency by determining the "true" cost of a product or service.¹⁴⁶ ABC principles are used to focus management attention on the total cost to produce a product or service and as the basis for full cost recovery. The process ABC, started by determining the cost activity pools based on defined activities, assigning the costs the activity cost pools, calculating the activity rates and finally assign the costs to cost objects using the activity rates and activity measures, will provide users with better understanding of the cost information for strategic decisions.

¹⁴⁴ OMB, Circular No. A-11 (July 2002), p. 221-5 in *ibid*.

¹⁴⁵ OMB, Circular No. A-11 (July 2002), p. 221-5 in *ibid*.

¹⁴⁶ "Activity-Based Costing: Accounting for Operational Readiness," in The Learning Source OSD Comptroller iCenter [database online]. [cited 2005]. Available from <http://www.ditc.mil/comptroller>.

ABC can become the basis for establishing performance measures; targeting cross-functional for improvement analysis; determining the gap in performance that may require reengineering; benchmarking process improvement to identify proven practices within organization and with external competitors and other organizations; and developing performance based budgeting plans.¹⁴⁷

The third important aspect is designing the assessment tool. The Performance Assessment Rating Tool (PART) in GPRA is maybe one of the best practices that can be used in this matter. PART is basically generated from the strategic goals and developed to be specific operational performance goals. Performance goals are expressed in a measurable and attainable objective to be matched with actual achievement in terms of outputs of outcomes.

According to OMB¹⁴⁸, the PART requires two types of performance goals. First, long-term performance goals address performance that is generally several years or more in the future which includes two basic types of long-term goals, an annual performance goal in the future (e.g., tornado warning times in 2008, or unit costs of an activity in 2010); and the cumulative effect of annual activities (e.g., development of an AIDS vaccine by 2010). Second, Annual performance goals should be stated in yearly increments For example, for the weather program, an annual performance goal might include the same performance measure (advance warning time), but a less ambitious target (e.g.,

¹⁴⁷ Tracey G. Amos, Cynthia A. Paolillo, and Denise A. Joseph, "Enhancing CFO, GMRA & GPRA implementation with activity based management," *The Government Accountants Journal* 46, no. 1 (1997): 28.

¹⁴⁸ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

15 minutes average warning time in 2005) due to less widespread use of advanced technologies.

PART which contains 25 questions (See Appendix B for detailed PART Questions) is divided into four sections with specific weight for each section to create the numerical scores in the four management categories as following:

Table 8: Overview of Sections of PART Questions

Section	Description	Weight
I. Program Purpose & Design	To assess whether •The purpose is clear, and The program design makes sense	20%
II. Strategic Planning	To assess whether the agency sets valid programmatic •Annual goals and Long term goals	10%
III. Program Management	To rate agency management of the program including •Financial oversight, and Program improvement efforts	20%
IV. Program Results/ Accountability	To rate program performance on goals reviewed in •The strategic planning section, and Through other evaluations	50%

Source: From GAO Report, GAO-04-174, p. 9.¹⁴⁹

To aid standardization, the questions that comprise the PART are generally written in a Yes/No format. The PART's instructions (see Appendix B for detailed Instructions of the Program Assessment Rating Tool) make a clear point that to be awarded a yes answer; the program should have a high standard of performance with a high level of confidence. However, according to GAO¹⁵⁰, the

¹⁴⁹ United States. General Accounting Office, *Results-Oriented Government: GPRA Has Established a Solid Foundatuon for Achieving Greater Results*, 270.

¹⁵⁰ United States. General Accounting Office, *Performance budgeting [electronic resource] : observations on the use of OMB's program assessment rating tool for the fiscal year 2004 budget*,

format of yes and no response has resulted in oversimplified answers to some questions. Some parties felt that the format did not adequately distinguish between the performances of various programs. To solve the problem, in spring 2002, OMB revised the PART to include four responses by adding "small extent" and "large extent" to the original two choices "yes" and "no"). It can be seen from standard of a yes in fiscal year 2006 PART instruction:

The PART holds programs to high standards. Simple adequacy or compliance with the letter of the law is not enough. Rather, a program must show it is achieving its purpose and that it is well managed. The PART requires a high level of evidence to justify a Yes response. Sections I through III are scored in a Yes/No format. In Section IV, a four-level scale (Yes, Large Extent, Small Extent, and No) permits answers to reflect partial achievement of goals and evidence of results. Answers must be based on the most recent credible evidence.¹⁵¹

To convert the PART scores into qualitative ratings, OMB uses the following scoring bands: effective (85-100), moderately effective (70-84), adequate (50-69), and ineffective (0-49). If the measures lack baselines and performance data and the program does not have performance measures that have been agreed-upon by OMB, a rating of Results Not Demonstrated (RND) is given. Gilmour and Lewis state that the last category is not intended to reflect well or poorly on a program. Rather, the "the results not demonstrated" grade reflects OMB's judgment that the

¹⁵¹ Office of Management and Budget, *OMB's Program Assessment Rating Tool: FY 2006 PART Instructions*,

existing measures for a program do not allow an assessment of the program's effectiveness.¹⁵²

The outputs of PART then will be transferred into a scorecard. The OMB's Executive Branch Management Scorecard contains six "Core Criteria". The highest rating of "green" a federal agency must satisfy all six criteria. A rating of "yellow" is awarded if the agency meets six similar criteria that establish a lower level of achievement. However, if any one of six defined "Conditions" is found to exist, the agency will automatically be given the lowest rating of "red." The detail of the scorecard core criteria can be seen in Appendix C.

By having performance measures linked to budget, if PBB could provide what government programs have good results or poor results, how the government will be encouraged? Will government be rewarded or punished? Under performance budgeting, people should not expect that good results will always be rewarded through the budget process while poor results will always have negative funding implications.¹⁵³ However, decisions on funding levels may be intended either to reward high achievement or to penalize inadequate achievement.¹⁵⁴ GAO continues by observing that viewing performance budgeting as a mechanistic arrangement—a specific level of performance in exchange for a certain

¹⁵² John Gilmour B. and David Lewis E., "Assessing Performance Assessment for Budgeting: The Influence of Politics, Performance, and Program Size in FY 2005," *Journal of Public Administration Research and Theory* (2004)

¹⁵³ United States. General Accounting Office, *Performance Budgeting: Current Development and Future Prospects*, 24.

¹⁵⁴ Schmidtlein, *Assumptions Underlying Performance-Based Budgeting*, 157.

amount of funding-or in punitive terms-produce results or risk funding reductions-is not useful. Such mechanistic relationships cannot be sustained. Rather than increase accountability these approaches might instead devalue the process by favoring managers who meet expectations by aiming low.¹⁵⁵

McNab and Melese observe that if the GPRA is to create an explicit linkage between budget appropriation (and obligations) and the outcomes generated by public expenditure, it must assist in the creation of an institutional environment that rewards efficiency, transparency, and the prompt, concise, and accurate reporting of costs, outputs, and outcomes.¹⁵⁶ In the absence of such an environment, departments may respond to the current incentive structure by "gaming" their performance reports to present their activities in terms designed to maximize their budget.¹⁵⁷

GAO claims that PBB can play an important role in creating incentives in a pay-for-performance system, for example, once a sufficient level of result is achieved, managerial bonuses might be linked to maintaining that level or service, while decreasing the program unit costs; this creates a particularly strong incentive for managers not to spend every program dollar where it is not necessary

¹⁵⁵ United States. General Accounting Office, *Performance Budgeting: Current Development and Future Prospects*, 24.

¹⁵⁶ McNab and Melese, *Implementing the GPRA: Examining the Prospects for Performance Budgeting in the Federal Government*, 73-95.

¹⁵⁷ *ibid.*

for achieving the desired result.¹⁵⁸ This is also the reason why public managers shifting their attention from traditional "incremental" line item budgeting to performance based budgeting.

F. CHAPTER SUMMARY

Performance based budgeting can be used as a supporting tool for the line item budgeting since PBB provide the performance information that can not be provided by line item budgeting. Performance Based Budgeting basically is a set of processes translating the strategic planning framework into performance measures in terms of input, output, and outcome to be tied into resource allocation in budgeting process. Three principles that must be established in PBB are strategic planning, performance measurement and linking performance to budget.

Albeit strategic planning is still new for the public sector, several reasons such as to give clarity and direction to the organization, to choose from among competing goals and activities, to cope with expected shifts in the environment, and to bring together the thoughts and ideas of all participants in the work of the organization has shifted the public sector manager to utilize it in their organization. In designing the components of strategic planning, there are two approaches that can be used as benchmarking. First, GPRA has three components: mission statement, general goals and

¹⁵⁸ "Congressional Testimony; Statement of John Mercer before the Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations U.S. House Representative, June 19, 2001; The Results Act: Has it Met Congressional Expectations?" [cited 2004]. Available from http://www.john-mercero.com/library/jn_testimony.pdf.

objectives, and approaches and strategies to achieve the General Goals and Objectives. Second, the Balanced Scorecard approach has seven components: mission, vision, core values, goals, strategy, strategic map and objectives.

In designing the performance measurement system, although there has been evolution of determining the performance measures in which the focus has been shifted from in the 1980s on the "three Es", economy, efficiency, and effectiveness, to in the 1990s on quality and consumer satisfaction, the factor of the wealthy of a country can be used in determining which measures that will be taken. While developed countries which have enormous resources to be allocated for government budget might use the quality and consumer satisfaction which emphasis the efficiency and effectiveness assessment, developing countries which have limited resources might not leave the economy perspective to obtain cost reduction in government budget.

In linking performance to budget, the performance measures not only capture the essence of the policy objective and the contribution of program activities to the outcome but also provide information on what outcomes are being achieved, whether resource investments have benefits that exceed their costs, and whether program managers have the requisite capacities to achieve promised results. Three important aspects that have to be considered in how to link performance to budget resources are: budget account changes to better align resources with programs and performance; full cost or ABC to better reflect where and when resources are consumed; and the assessment tool in which. The Performance Assessment Rating Tool (PART) in GPRA is can be used as the best practice.

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IV. A MODEL FOR INDONESIAN DOD

A. INTRODUCTION

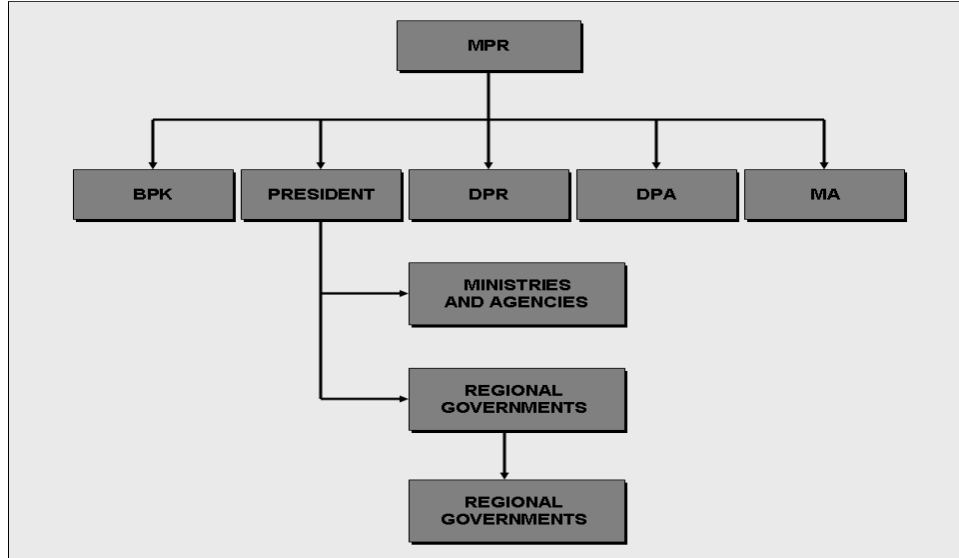
This chapter provides a model of performance based budgeting for Indonesian DOD/TNI by incorporating the knowledge and information from the Chapter II and Chapter III. Section B presents a short overview of budgeting process in Indonesia. Section C discusses the progress of the implementation of Performance Based Budgeting in Indonesia as well as several comparisons between the current progress and United States Experiences in GPRA. Section D provides a cascade model of performance based budgeting process for Indonesian DOD/TNI. A summary is provided at the end of the chapter in Section E

B. OVERVIEW

The 1945 Constitution of the Republic of Indonesia recognizes six state institutions: (1) The People's Deliberative Assembly or Majelis Permusyawaratan Rakyat (MPR); (2) The President; (3) The Supreme Advisory Council or Dewan Pertimbangan Agung (DPA); (4) The House of People's Representatives or Dewan Perwakilan Rakyat (DPR); (4) The Audit Board of the Republic of Indonesia or Badan Pemeriksa Keuangan (BPK); (5) The Supreme Court or Mahkamah Agung (MA).

The hierarchical position of the six institutions is as following:

Figure 1: Hierarchical Position of Six Supreme Institutions in Indonesia



Notes:

1. MPR: The People's Deliberative Assembly or Majelis Permusyawaratan Rakyat;
2. DPA: The Supreme Advisory Council or Dewan Pertimbangan Agung;
3. DPR: The House of People's Representatives or Dewan Perwakilan Rakyat;
4. BPK: The Audit Board of the Republic of Indonesia or Badan Pemeriksa Keuangan;
5. MA: The Supreme Court or Mahkamah Agung.

From the above figure, it can be seen that the highest constitutional body is the MPR which is selected every five years. Half of the MPR members are assigned as member of DPR which is constitutionally has legislative authority. This condition also gives strong power to DPR. However, it can be dissolved by President. If the President exceeds his authority the DPR can convene the MPR to bring the President to account. The President as the principal executor of state

government is not responsible to DPR but to MPR except for the law enactment and state budget approval in which President needs DPR approval. BPK is responsible for auditing the government accountability in using the state funds and delivering the report to the DPR. Ministries and Heads of Agencies are appointed by the President and are responsible to the President. For government structure, the Indonesian Government has a three tier government structures; state, regional, and local.

Indonesian budgeting system has evolved dramatically for the past two years, especially with enormous pressures from investors to better manage financial management and enhance government accountability. Lessons learned from the fragile system before the monetary and economic crisis in 1998 have provoked the stakeholders to demand changes towards how the government runs its business.

In the past, the financial management system was linked to the Indische Compatabiliteits Wet (ICW) inherited from Dutch Colonialism, and further amended from time to time and called the Indonesian Financial Administration Act. Realizing the inadequacy of the ICW, gradually the government has enacted several laws related to financial matters. The important law that has become the starting point of the willingness to change is the State Finance Law No. 17/2003. Before the enactment of this law, the budgeting system was the traditional line item budgeting system. The state budget was prepared on the basis of the Five Year Development Plans (REPELITA) in accordance with the General Guidelines of State Policy (GBHN). GBHN was a long term national development plan for a twenty-five year period and was updated every five years.

The budget appropriation was prepared on an annual basis. The budget estimates were prepared annually and submitted to the DPR for approval. Any policy and provision changes on the approved budget need DPR approval. The budget bill, having approved by the DPR and signed by the President, comprised of state revenues and state expenditures. While state revenues consisted of two classifications. First was routine revenues, revenues internally generated from taxes revenues and non taxes revenue (PNBP); second was development revenues, revenues received in foreign loans. State expenditures also consisted of two classifications: routine expenditures and development expenditures. They were allocated into sectors and sub sectors.

C. PERFORMANCE BASED BUDGETING IN INDONESIA

Before the government reform which was initiated after the 1998 crisis, there was no performance evaluation tool provided by the government to assess the execution of its tasks and activities. Government had a strong power over all other supreme institutions in the country. The only performance evaluation was DP3, a performance evaluation for civil servant. However, this tool was still inappropriate and consisted of many unclear and biased measures.

After the 1998 crisis, feeling pressure from investor countries, a series of action was taken. The first effort was by launching the President Instruction No. 7, 1999 that required departments, agencies and regional and local government to prepare the Accountability and Performance Reports, AKIP report (LAKIP-Laporan Akuntabilitas Instansi

Pemerintah). However, it has a serious flaw in that the agency or department is free to assign a weight to each activity performed and the danger is that the agency attempt to engineer the weight in order to search the "best" result, regardless the improvement and furthermore, this has been perceived as a useless exercise since there is no follow-up or utilization of the *LAKIP* data.¹⁵⁹

The second effort is the involvement of investor countries through Non Governmental Organization and consultants is to assist local governments in preparing a new result oriented budget, performance budgeting. This effort has been taken in accordance with the decentralization policy which was initiated in 1999. It is clearly stated in the 8th paragraph of Government Regulation (PP) No. 105/2000 that local government should follow performance budgeting in preparing the annual budget. However, the biggest challenge to implement the performance budgeting in local government is lack of understanding of the concept of performance budgeting. Several other issues faced by local government are lack of general guidelines for local planning; delayed release of new guidelines for local budgeting and financial management; vague expenditure planning; and lack of qualified local planning and budgeting officials.¹⁶⁰

For central government, by the enactment of two laws, the Law No. 17/2003 and the National Development Planning System Law No 25/2003 gradually the government transforms how they run business. The National Development Planning

¹⁵⁹ Ahmadi H. Ringoringo, *Performance Budgeting: The Impact of Public Expenditure Policy to Local Government*, Anonymous, Jakarta ed. Project 497-0357/104-000, USAID-funded Partnership for Economic Growth, 2002)

¹⁶⁰ *ibid.*

System Law No. 25, 2003 was enacted to shift the national planning from GBHN system to the new planning system so called PROPENAS (National Planning Program). By this new law, the planning system will initiate strategic planning by incorporating a twenty-year period of long term planning, divided into four medium term planning (five years) and short term annual planning. The PROPENAS provides directions for development strategy at all levels of government, which determines sectoral allocations of development spending for central and regional levels. Strategic development plans of central line ministries and agencies (RENSTRA) are produced based on PROPENAS, accompanied by the annual national development plan (REPETA) defining priorities in the national development budget.

The State Finance Law No. 23 2003 provides significant changes for state, regional and local budgeting systems. Ministry of Finance has cooperated with other related agencies and consultants to prepare the manual and additional regulation to cover the implementation of performance budgeting. It is expected that the full implementation will be started in FY 2006. There are three important changes for the budgeting process. The first important aspect in this law is the requirement for state and local governments to implement results oriented budgeting by integrating the performance accountability system into the budgeting system. The second important aspect is the requirement to unify the budget classification, called unified budget. This change will eliminate the previous budget classification of routine and development budgets which created redundancy, inefficiency and even fraud in departments and agencies. The third

important aspect is Medium Term Expenditure Framework (MTEF) to enhance the inter-correlation between the planning and budgeting process and to obtain more rational and strategic resources allocation. It is also mentioned that in future year government will provide Government Accounting Standard so that government financial statements can be more transparent and accountable.

In the State Budget for FY2005, the government has made some progress and adjustment in accordance with the Law no. 23/2004. The important move is that government has reclassified the budget accounts. The purposes of the budget reclassification are (1) to avoid budget duplication due to lack of policy to distinguish between operational routine activities and development project in the past, (2) to ease the preparation of performance based budgeting and to explain relationship between output/outcome, (3) to provide objective and proportional descriptions about government financial activities, and (4) to increase government financial statistical credibility.¹⁶¹ The central government expenditures are divided into eleven "function" categories: (1) public service, (2) defense, (3) Safety (4) economy (5) environmental, (6) housing and public facilities, (7) healthcare, (8) tourism and culture (9) religion, (10) education, and (11) social protection.¹⁶²

The unified budget principle in this budget reform is very important in ensuring that investment and recurrent operational expenditures simultaneously are considered in budget decision making. It will also assist in preparing the

¹⁶¹ Indonesian Ministry of Finance, *State Budget Plan FY2005*, (Jakarta: Indonesian Ministry of Finance, 2005), 162.

¹⁶² *ibid.*

performance based budgeting manual that is currently being prepared by the government. Some basic changes on budget format due to the implementation of unified budget and budget accounts reclassification are as following:

Table 9: Changes on Budget Format Due to the Implementation of Unified Budget and Budget Accounts Reclassification

Old Format	New Format
<p>➤ Expenditures Classification</p> <ul style="list-style-type: none"> • Dual budgeting • Expenditures consisted of six types of expenditures including Development Expenditures 	<p>➤ Expenditures Classification</p> <ul style="list-style-type: none"> • Unified budgeting • Central Government Expenditures consist of eight type of expenditures
<p>➤ Organization Classifications were not included in Government Finance Notes and State Budget Law</p>	<p>➤ Organization Classifications are included in Government Finance Notes and State Budget Law</p>
<p>➤ Sector Classification</p> <ul style="list-style-type: none"> • Consisted of 20 sectors and 50 sub sectors • Programs were sub classification of sector on routine and development budget 	<p>➤ Sector Classification</p> <ul style="list-style-type: none"> • Consists of 11 functions and 79 sub functions • Programs are classified based on departments and agencies and then compiled based on functions
<p>➤ Budget Allocation was based on sector, sub sector, and program</p>	<p>➤ Budget Allocation is based on government departments and agencies</p>

Source: From Indonesian State Budget Plan FY2005, p. 96¹⁶³

The detailed format changes especially on state expenditures based on economic classification can be described in the following table:

¹⁶³ *ibid.*

Table 10: Conversion State Expenditures Based on Expenditures Types

Old Format	New Format
A.State Revenues and Donation I.Internal Revenues 1.Tax Revenues 2.Non Tax Revenues II. Foreign Aid Grant B.State Expenditures I.Central Government Expenditures 1.Routine Expenditures a.Salary Expenditures b.Goods Expenditures c.Interest Expense d.Subsidies e.Other Routine expenditures 2.Development Expenditures II. Local Government Expenditures C.Primary Balance D.Budget Surplus/deficit E.Financing	A.State Revenues and Donation I.Internal Revenues 1.Tax Revenues 2.Non Tax Revenues II. Foreign Aid Grant B.State Expenditures I.Central Government Expenditures 1.Salary Expenditures 2.Goods Expenditures 3.Capital Expenditures 4.Interest Expense 5.Subsidies 6.Foreign Aid Expenditures 7.Social Assistance 8.Other expenditures II. Local Government Expenditures C.Primary Balance D.Budget Surplus/deficit E.Financing (e.g. Foreign Loan and loan from National Bank)

Source: From Indonesian State Budget Plan FY2005, p. 9t164

Budget classification is based on function and programs instead of on sector/sub-sector in the old format. Function/sub-function is not the basis of budget allocation. Budget allocation is based on the proposed programs from departments and agencies and then the programs are classified by their functions and sub-functions. Hence, the detail of the expenditure budget is the compilation of the budget from departments and agencies.

By comparing United States experience with its GPRA and the current progress of performance budgeting implementation

164 *ibid.*

in Indonesia several lessons learned can be noted. First, the GPRA is the law and has support from both President and Congress. The position as a law has provided strong power for department and agencies to implement it. Otherwise, the content of GPRA has appropriately provided information on how to implement the law, ranging from the strategic planning, performance measures, and linking performance to budget or budget performance and integration as well as the performance plans and reports.

The Law No. 17.2003 does not provide detail like GPRA has since it only provides the several statements on the requirement to implement performance based budgeting. For the detail about performance based budgeting, currently, the government still discuss about this matter. To be able to emulate the success of GPRA, the Indonesian government has to provide the new law on the detail explanation and process of performance budgeting. By enacting it as a law which means it will need DPR approve, minimally it will take DPR attention and government can cooperate with the DPR from the earlier process of performance budgeting so that both parties agree with the content of the law and support the implementation.

Second, since being enacted in 1993, the implementation of GPRA was initiated with several pilot projects and divided into two categories, the strategic planning, performance measures and the managerial flexibility waiver. The implementation was also being delayed due to several problems mentioned in Chapter II. Learning from those experiences, it would be appropriate for Indonesian Government not to speed up the implementation in 2006 in whole departments and agencies. It will be better if this

project is started with several pilot projects in all departments and agencies so that the budget efficiency and quick response towards any deviation and changes of the standards and procedures could be attained.

Finally, the most important thing related to performance measurement and assessment is standards and benchmarking. The lack of performance standards and benchmarking available for the public sector has been a problem for budget audit and evaluation stage in comparing between performance plans and actual realization. The method used in GPRA of having annual performance plans and annual performance report to be compared in performance evaluation stages can be emulated. This will also save department and agencies time in preparing the budget instead of paying much attention in designing and finding appropriate standards and benchmarking.

D. PBB MODEL FOR DOD

1. Overview

It is an ironic that Indonesia, a country with a vast geographical area, a high degree of vulnerability to both internal and external threats and a strategic location in the Asia-Pacific region currently has not more than 50% military readiness capabilities on main weaponry system. For example, from 200 jet fighters, comprising F-16 Fighting Falcons, A4-Sky Hawks, Hawk 200s and F-5s and about 75 percent of the fighters, however, are unable to fly due to lack of spare parts. Several jet fighters are already obsolete and in need of replacement. Some A-4 Sky Hawks, for example, were made in 1980 but they are still being flown

today, roughly 13 years after they should have been grounded in 1990.

It is absolutely understandable that Indonesia needs to acquire more sophisticated weapons and use them in defending its territorial integrity and protecting the country adequately. This condition has been exacerbated by having the military embargo imposed by the United States following the violence in East Timor in 1999. The embargo has prevented Indonesian National Armed Force (TNI) from getting spare parts, ammunition, and other military hardware from United States. Albeit, several talks between Indonesia and US have showed a promising result, however, officially U.S. still has not lifted the embargo.

This has made it difficult to provide funding for the real needs of TNI. Defense structure is very expensive so that it should be planned carefully with sufficient considerations towards the availability and sustainability of state funds as well as internal and external political environment. The last effort by government in procuring four Sukhoi's through counter trade system with Russia was one the efforts to enhance the capabilities by using off-budget payment and exchanging forty commodities for several deliveries in the future.

The condition above coupled with an increasing public attention to enhance the capabilities from increasing external threats as well as TNI's willingness to reform itself into a new paradigm; there has been a dramatic budget increase for the last three years on defense budget. For example, from only approximately US\$800 million (FY2002\$) in 2002 which was less than 4 percent of the government budget, for 2005, the military budget is

approved for approximately US\$ 2.4 billion (FY2005\$) which is almost 10% of government budget.

The budget increase does not mean that TNI/DOD can spend it without having adequate control. To create transparency as part of civilian control over military, especially in budget control, all military disbursements should be performed in accordance with available laws and regulations by planning, budgeting, managing and monitoring them appropriately. The DPR as representative of society must be fully involved in the process of budgeting. A clear justification of confidentiality towards national security should be formulated sufficiently to avoid misusing of the funds in particular activities. The public has a right to know what really happens in the country and to obtain sufficient information about problems.

To fulfill the demand in transforming into the new paradigm and to provide the strategic framework as well as to increase the accountability and present the transparency to the public, DOD has also issued the Defense White Paper which provides the strategic framework of how DOD/TNI perceives the threats, defines its capabilities, and articulates strategic policy for Indonesian defense. Before 2003, where the only strategic framework document was what was available in GBHN, DOD/DNI did not have any document such as National Military Strategy in the U.S. that was publicly available to provide the strategic framework of how DOD should run its business.

The military budget system is much different from other civil government departments and agencies. Internally, in budget formulation and costing, DOD has already implemented the Planning, Programming, and

Budgeting System (PPBS). After introduction in the 1970's, the system has been adjusted gradually in accordance with the development of financial system in the country. The outputs of the PBBS system are coordinated into one budget request that will be submitted to the Ministry of Finance.

For program and budget management, DOD/TNI has three basic principles: bottom up, top down, and one gate policy. The bottom up policy means that every unit hierarchically proposes the business need plans based on proposal as well as its explanation including the detail calculations and arguments to support the budget plan. The top down policy means top management determines the lower level budget based on priority, corporate policies, and resources capabilities. One gate policy means every function, planning, programming, executing, and controlling in organization is conducted separately by function in the organization.

In its response to the implementation the unified budget, DOD has also changed its budget classification into programs for the FY 2005. The new Defense Budget program structure with functional approach can be seen as following:

**Table 11: Indonesian DOD Budget FY 2005 Based on Functions
(in thousands, Rupiah)**

Code	Program	Amount
02.01	Country Defense	
02.01.01	Integrated Defense Development	2,150,010,040
02.01.02	Land Defense Development	9,052,604,211
02.01.03	Sea Defense Development	3,187,952,828
02.01.04	Air Defense Development	2,377,112,942
02.01.05	Strengthening Nation Unity and Sovereignty	25,759,920
02.02	Defense Supports	
02.02.01	Defense System and Strategy Development	52,587,019
02.02.02	Defense Supporting Potency Development	5,016,172,184
02.02.03	Defense Industries Development	19,314,956
02.03	Overseas Military Cooperation	
02.03.01	International Military Cooperation	40,789,490
02.04	Defense Research and Development	
02.04.01	Defense Research and Development	28,756,549
02.04.02	National Defense Development	15,500,000
02.05	Others Defense	
02.05.01	TNI Social Operation	26,569,085
Total		21,977,629,824

Source: From Indonesian State Budget Plan FY2005, p.155¹⁶⁵

Based on the table above, although the budget has been adjusted to program structure, from the program title, it can be seen that the programs are too general. If the DOD/TNI is willing to use this program classification in the performance based budgeting, it will result in the programs that are too wide, consisting of many overlapping performance measures. Moreover it will make the process of setting and evaluating the performance measures difficult. It will be better if the program is created more specifically so that the performance measures can be directly tied to the program.

The above configuration will be different if we compare them with the United States DOD Programs directed to specific strategies: such as Air Combat Program, Air Force Aircraft Operations, Air Force Depot Maintenance, Airlift

¹⁶⁵ *ibid.*

Program, Army Land Forces Operations, Basic Research, Chemical Demilitarization, Communications Infrastructure, Defense Health, Depot Maintenance - Naval Aviation, Depot Maintenance - Ship, DOD Applied Research Program, DOD Small Business Innovation Research Technology, Energy Conservation Improvement, Housing, Military Force Management, Missile Defense, Navy Ship Operations, Navy/Marine Corps Air Operations, Recruiting, Shipbuilding, and Facilities Sustainment, Restoration, and Modernization.

For strategic planning, because DOD and Indonesian National Armed Forces (TNI) are separated and have equal position under the President, there is no such a unitary strategic planning. Ideally and officially, both organizations have to have the same mission, visions, goals and objectives, and strategies. Albeit, financially and administratively, TNI is willing to merge with the DOD, hierarchically, TNI is still reluctant to be under the DOD just like the U.S. has in its DOD. If this condition would be resolved, conflicting of interests in civil military relationships will continue to escalate in the future years. The current TNI mission, visions, and corporate level goals are:

Table 12: Indonesian TNI Mission, Vision, Goals

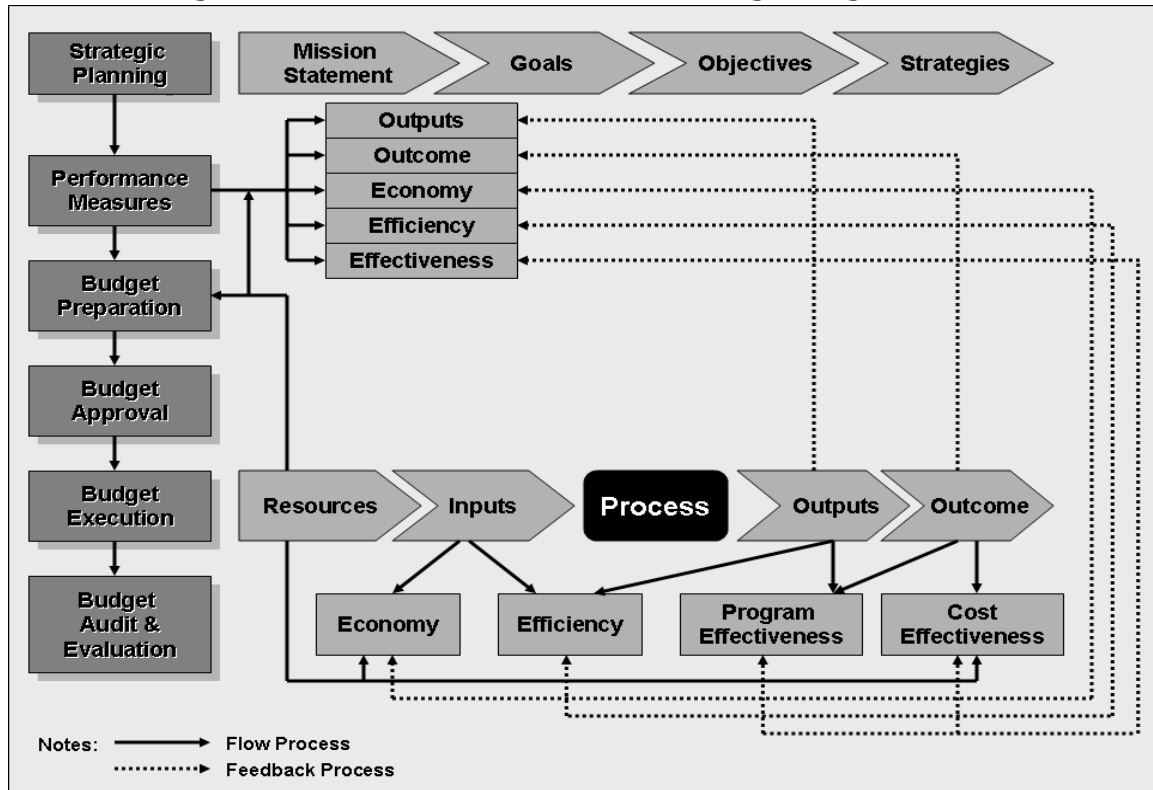
Mission Statement	"To build a solid institution of Indonesian Armed Forces (TNI) and to give priority to the professionalism as the guardian of the nation freedom and safety."
Vision Statement	"To complete the internal reformation and put TNI back as the nation tool of defense by holding on to Propenas 2002 - 2004 decision of defense and safety development."
Corporate Level Goals	<ol style="list-style-type: none">1. Restructure the TNI in accordance with new paradigm consistently through reposition, redefinition , and reactualization of TNI's role to protect, maintain and defend the unitary state of the Republic of Indonesia against internal and external threats by incorporating the human rights and perform services in assisting the development of the country2. Develop the nation defense and security system capabilities3. Enhance the quality of TNI professionalism, enhance the force ratio of main components, and develop regional capabilities supported with appropriate infrastructure and funding.4. Widen and enhance the quality of defense bilateral cooperation to maintain the stability of regional safety and to participate in maintaining the world peace.
Strategies	<ol style="list-style-type: none">1. Build the Force Structure: Build military operational capabilities to defend and not for defense, enhancing management quality, intelligent capabilities, territorial functions enhancement, and cooperation with allies.2. Force development through limited personnel and equipment regeneration and personnel management with task orientation.3. Enhancing the quality Main Weaponry System through Research and Development activities and existing main weaponry system maintenance4. Military Deployment is developed in conjunction with defense policies and strategies with geographical configuration orientation.

2. The Cascade Model of Performance Based Budgeting for Indonesian DOD/TNI

Based on the comparative study with United States experiences with GPRA in Chapter II as well as the theoretical literature review in Chapter III, the framework

of the cascade model of Performance Based Budgeting for Indonesian DOD/TNI can be described in following figure:

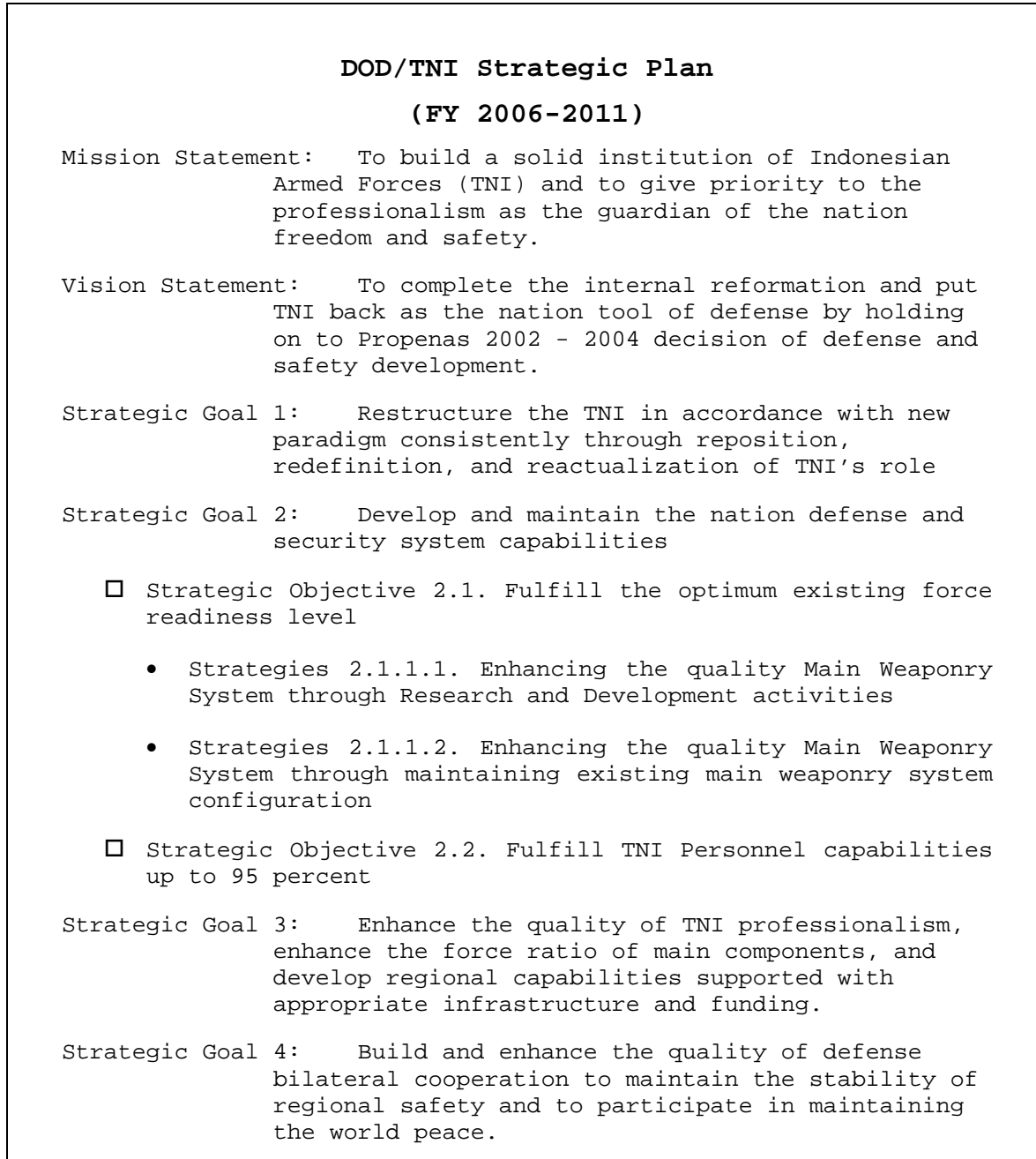
Figure 2: Performance Based Budgeting Process



The PBB process is started by designing the strategic plan. Strategic planning consists of mission, goals and objectives, and strategies that provide strategic direction for the organization and inspire the entire human resources in the DOD/TNI to better manage and conduct all necessary activities to achieve the mission. To be able to design an effective performance measurement system, DOD/TNI has to prepare the strategic plan so that it can generate a sound measurement system.

The strategic plan has to be well documented. The example of a strategic plan can be described in the following figure:

Figure 3: Example of DOD/TNI Strategic Plan



From the figure above, it can be seen that the strategic goal is more specifically defined by two

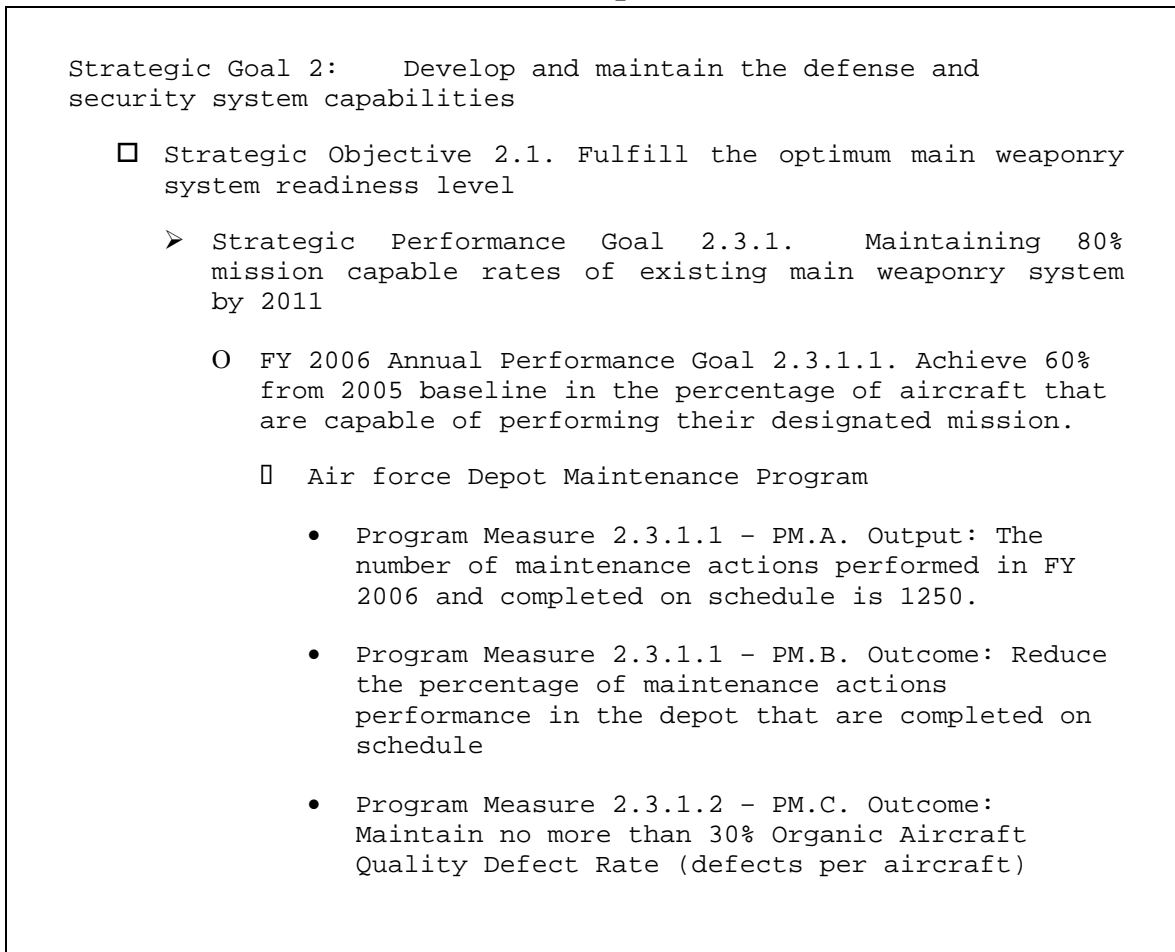
strategic objectives, one of which is "Fulfill the optimum main weaponry system readiness level." The strategic performance goal is a measurable target level to be achieved by FY 2011 in which it is the measurable outcome that DOD/TNI wants to achieve. To achieve this objective, two strategies are provided: (1) Enhancing the quality Main Weaponry System through Research and Development activities and (2) Enhancing the quality Main Weaponry System through maintaining existing main weaponry system configuration.

In linking strategic goals and objectives with performance measures, in Figure 3 below, the goal is divided in two types: Strategic Performance Goals and Annual Performance Goals. A strategic performance goal will function as a long term measurement in medium term framework while an annual performance will function as an intermediate outcome for specific fiscal year budget. To achieve the 80% mission capable rates of existing main weaponry system by 2011, for FY 2006, the intermediate outcome is assumed at 60% from 2005 baseline in the percentage of aircraft that are capable of performing their designated mission.

Based on the strategies in Figure 2, a series of programs have to be created to achieve the goals and objectives. In the figure 3, the example of program is Air force Depot Maintenance Program. The program will have three performance measures, an output and two outcomes. The output is the number of the number of maintenance actions performed in FY 2006 and completed on schedule, 1250 actions in which this the number of maintenance actions that will be covered in FY2006 budget. The two outcomes for the programs are first "Reduce the percentage of

maintenance actions performance in the depot that are completed on schedule" and second "Maintain no more than 30% Organic Aircraft Quality Defect Rate (defects per aircraft)."

Figure 4: Example of End Outcome and Intermediate Outcome to outputs



In budget preparation stage, two processes have to be performed: budget formulation and costing in DOD/TNI and budget plan evaluation in the Ministry of Finance. The output of budget formulation and costing is such an initial budget request. Deriving strategic planning and performance measures in previous stages, in budget formulation and costing, DOD/TNI have to provide the scope, content,

performance and quality of programs and activities proposed to meet the organization's mission, goals and objectives.

In this stage, the most important tool that has to be applied is selecting the costing method. DOD/TNI has to choose which method would be appropriate for their business, between full cost and ABC. Probably most government departments and agencies would use the full cost method since it is easier to align the budget account from previous format, however since the DOD/TNI has used unit cost in designing the budget, ABC might be the good choice for the costing method.

In preparing a budget request that will be delivered to the Ministry of Finance, the budget request includes a strategic plan which provides a logical connection between the strategic and performance context and day to day basis activities, performance information in terms of output, intermediate outcome, final outcome, efficiency, and effectiveness, and cost information which identifies the real cost of providing services with cost charged to the appropriate program. The information on the budget request above can be used to provide budget justification that will be negotiated in the Ministry of Finance, to make tradeoffs among the subunits in allocating the funds based on availability and priorities; to measure productivity of the subunits, and to determine overlapping services within the DOD/TNI. In the Ministries of Finance, a performance informed budget will be used in analyzing the budget request from TNI/DOD in the context of its performance implications or outcomes, to make tradeoffs among the departments and agencies, and to provide budget justification for submission to the DPR.

The budget approval stage involves two players, government represented by the Ministry of Finance as well as DOD/TNI and the DPR. In this stage, to obtain approval from the DPR and to defend the budget request, performance information can help the government's capacity to assess competing claims in the budget by arming the DPR with better information on the performance results for both individual program as well as entire government budget portfolios in addressing performance outcomes. Furthermore, it helps clarify the relationship between the budget and the results, in which the performance information not only shows the results of a certain budget program but also indicates how those funds are expected to generate those results. To maximize control, the DPR could focus primarily on expected results rather than in the amount of funds appropriated. This would assist agencies in developing priorities, since authorization of legislation involves reaching consensus between the DPR and the Government.

In the budget execution stage, the important point is how to continuously update and gather of performance information. The information should be reported at frequent, specified dates, with department heads being held responsible for both accurate data and improvements in performance. The potential benefits for DOD/TNI of using performance information in this stage are to understand the specific implications of the approved budget for performance, to analyze the progress of the programs by comparing the targeted performance with the current progress, to assist in making contract decision and its management as well as measuring the contractor performance, and to monitor the budget and performance realization and

provide quick feedback for unintended and intended deviation budget execution.

For budget audit and evaluation, the performance information can be used to shift the focus of audits and evaluations to include performance questions, rather than only financial compliance so that internal and external auditors are able to determine the success or failure of a program as well as the compliance with applicable law. Generally, the performance information will help the work of auditor in conducting performance audits. Without having a performance system, auditors are not able to conduct the audits because in performance audit, the organization's performance measurement system has to be compared with standards and benchmarks. Specifically, the performance measure elements such resources, inputs, outputs, outcomes would be used to assess the economy (resources VS inputs), efficiency (inputs VS outputs), and cost effectiveness (resources VS outcomes) and program effectiveness (outputs VS outcomes) aspects of programs or organizations.

E. CHAPTER SUMMARY

For the last few years, Indonesia has proved itself to be a more democratic country by incorporating a series of reform to enhance government's accountability. In the budgeting system, the State Finance Law No. 23 2003 provides significant changes on the state, regional and local budgeting system through four important changes: performance based budgeting, unified budget, Medium Term Expenditure Framework, and Government Accounting Standard. Progress such as budget account reclassification by implementing the unified budget as well as strategic planning can be found in

almost every department, agency, regional and local government and has proved that the government has speeded up the PBB implementation.

In the DOD/TNI, as an agency which obtains significant budget increase for the last 5 years, the performance based budgeting has to be well provided so that public can be better informed on how DOD manages the budget. The performance based budgeting model provided in this Chapter can be used as an initial step to implement the PBB.

The PBB model starts with the strategic planning and consists of mission, goals and objectives, and strategies that provide strategic direction for the organization and inspire the entire human resources in the DOD/TNI to better manage and conduct all necessary activities to achieve the mission. The performance measures that will be used are output, outcome, economy, efficiency, and effectiveness. In linking the performance to budget, the budget request including the strategic performance context, performance information, and cost information has to be applied and provided in the four stages of budgeting, budget preparation, budget approval, budget execution, and budget evaluation and audit.

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V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

Performance based budgeting has been acknowledged as the new proven successful method budget reform in the developed countries such as United States, New Zealand, Sweden and United Kingdom. The willingness of Indonesian's government to adopt performance based budgeting would provide an umbrella for government performance evaluation tool in enhancing public sector accountability. However this effort should result from the inner will to change instead of to fulfill demand and pressure from the donor countries.

To permeate a performance perspective into budget information and decision, the underlying performance information should be credible, sufficient, and used by all budget decision makers. The government has to involve the stakeholders in preparing the PBB implementation, especially, the DPR in which both will get involved in preparing the rules and regulations so that this effort would not be a hollow paperwork exercise.

More importantly, to emulate the success of GPRA, the government and DPR has to enact a new law for the blueprint or detailed content of PBB to be applied in government departments and agencies so that they would be challenged and strongly encouraged to appropriately take the PBB effort as a priority. The role of the legislature (DPR) in cooperating with government is very critical. Not only because DPR has to get involved for the preparation of the law as mentioned above but also because it is DPR that

would significantly employ the PBB in the process of budget approval and evaluation.

The decision from the government to fully implement PBB for the FY2006 perhaps should be intensely evaluated. Currently, the biggest challenge to implement the PBB is lack of understanding of the concept of strategic planning and performance measures; even many public managers do not understand performance measures such as the difference between output and outcome. Selecting several pilot projects in each department or agency might be more effective so that any deviation and suggestion for improvement can be quickly realized.

The opportunities by having the Law No. 25/2004 on National Development Planning System have to be exploited to better result in the departments and agencies strategic planning. Instruction for the preparation has to be well designed and clearly enunciated so that departments and agencies can provide strategic framework that actually can be linked to day to day activities and inspire all the elements in the organization to shift to the new paradigm and new way doing of business. The instruction is very important because it is not possible that they would capture the old long term planning frameworks from GBHN. In this matter, the Medium Term Expenditure Framework (MTEF) aimed to enhance the inter-correlation between planning and budgeting process and to obtain more rational and strategic resources allocation.

In selecting the performance measures that would be applied, the measures have to be adjusted to the need of the country as a developing country. Specifically, although efficiency and effectiveness have been dominantly used in

the developed countries where Indonesian government can obtain the benchmarking, the perspective of economy must be considered as the first priority. As a developing country which has limited resources to be allocated, the aspect of economy to better obtain the lowest price among alternatives as well as cost reduction on current expenditures would provide cost saving and optimum resource allocation. Additionally, due to the lack of performance standards and benchmarking available for the public sector, the method used in GPRA by having annual performance plans and annual performance report to be compared in performance evaluation stages can be emulated.

Especially in DOD/TNI, the economy perspective is very critical due to many procurements funded by Overseas Export Credit with its high lobbying cost, and short grace loan period, and high interest rates, and the new approach from Indonesian's government in developing national military industries to create and develop main weaponry system. The more cost reduction obtained from the lower price on procurement, the more optimum budget allocation can be obtained, and finally the more weapons can be procured by using the same amount budget.

The current system cost per unit measures such as cost per flying hour, cost per steaming hour, cost per tank mile that have been used in preparing the current budget might be considerations in selecting the costing method for the performance based budgeting between the full cost method and the ABC method. Additional work to be done is to establish a blueprint that provides manual instruction of the ABC and as basis for the creating a performance based costing.

Attention also must be focused on the strategic planning for DOD and TNI that must contain the same mission, vision, goals and objectives, and strategies as the inspirational framework in doing the business and developing the defense sector as well as the national military industries. It is time for both sides to sit together, get rid of the sectoral ego, and think strategically on how to build a solid institution and to give priority to the professionalism as the guardian of the nation's freedom and safety as well as to complete the internal reformation in the defense sector.

B. RECOMMENDATIONS FOR FUTURE RESEARCH

This study provides an overview of performance based budgeting and a basic model for Indonesian DOD/TNI. The study's intent is to promulgate the Indonesian DOD/TNI to better prepare the further requirements of the performance based budgeting process that would be implemented in 2006. Within the study performance based budgeting in Indonesian defense sector, there are several areas to conduct supporting research as following:

- How specifically the performance based budgeting would assist the stakeholders decision making in allocating the limited resources?
- How performance could specifically be measured and differed in terms of war deployment and peacetime operation?
- Within Indonesian DOD/TNI how specifically the performance would be measured as well as how

the performance measurement system would be appropriately designed?

- How the Activity Based Costing (ABC) would be used as a costing method in DOD/TNI?
- How the performance based budgeting concept would be linked to the business activities within Indonesian DOD/TNI such as in acquisition (performance based acquisition) and in logistic (performance based logistic).

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APPENDIX A. PROGRAM ASSESSMENT RATING TOOL TYPES OF PROGRAMS

(Source: From OMB PART Instruction FY 2006)

TYPES OF PROGRAMS

Although most PART questions are the same, the PART divides all programs into seven categories for the purpose of asking additional questions unique to a particular type of program. These categories apply to both discretionary and mandatory programs.

1. Direct Federal Programs where services are provided primarily by employees of the Federal government, such as the National Weather Service and the Visa and Consular Services.
2. Competitive Grant Programs that provide funds to State, local and tribal governments, organizations, individuals and other entities through a competitive process, such as Health Centers.
3. Block/Formula Grant Programs that provide funds to State, local and tribal governments and other entities by formula or block grant, such as Weatherization Assistance and the Ryan White program.
4. Regulatory Based Programs that accomplish their mission through rulemaking that implements, interprets or prescribes law or policy, or describes procedure or practice requirements, such as the Food Safety and Inspection Service.
5. Capital Assets and Service Acquisition Programs that achieve their goals through development and acquisition of capital assets (such as land, structures, equipment, and intellectual property) or the purchase of services (such as maintenance, and information technology) , for example, Defense Shipbuilding and the Bonneville Power Administration.

6. Credit Programs that provide support through loans, loan guarantees and direct credit, such as Export-Import Bank/Long Term Guarantees.

7. Research and Development

(R&D) Programs that focus on knowledge creation or its application to the creation of systems, methods, materials, or technologies, such as the Department of Energy/Solar Energy and NASA/Mars Exploration programs.

There is a separate PART form for each of the seven types of Federal programs, though most of the questions are common across the seven forms. The vast majority of Federal programs fit into one of the seven categories of programs for which there is a PART. However, some programs use more than one mechanism to achieve their goals (e.g., grants and credit). Even in these cases, using one PART is likely to be sufficient. To enable this for R&D programs, which can use one of the other program types (e.g., competitive grants) as a means of funding R&D, the R&D PART has been designed to enable R&D programs that fund research through grants, contracts, cooperative agreements or other transactions to answer questions from the Competitive Grants instrument. Similarly, R&D programs that construct or operate equipment or facilities will answer some questions from the Capital Assets and Service Acquisition PART. There may be other cases in which drawing questions from two different PARTs - i.e., creation of a "mixed" form - yields a more informative assessment. In those instances, the PART type that most closely reflects the core functions of the program should be chosen as a base, and then, if necessary, selected questions from another PART can be added. The OMB examiner should consult with a member of the OMB Performance Evaluation Team, if considering this approach.

For new programs for which it is impractical to expect results, it is possible to complete only Sections 1 through III of the PART. However, performance measures, targets and related information should still be provided (and scored) in Section IV for new programs where practical.

Question-specific instructions are attached to help explain the purpose of each question and general standards for evaluation. The individual PART worksheets also contain

this guidance as well as instructions on the technical aspects of using the worksheets. These instructions will not cover every case, and it is up to the user to bring relevant information to bear in answering each question that will contribute to the program's assessment.

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APPENDIX B. PROGRAM ASSESSMENT RATING TOOL QUESTIONS

(Source: OMB PART Instruction FY 2006)

I. PROGRAM PURPOSE & DESIGN

This section examines the clarity of program purpose and soundness of program design. It looks at factors including those the program, agency, or Administration may not directly control but which are within their influence, such as legislation and market factors. Programs should generally be designed to address a either an efficiency matter, such as a public good or externality, or a distributional objective, such as assisting low-income families in the least costly or most efficient manner. A clear understanding of program purpose is essential to setting program goals, measures, and targets; maintaining focus; and managing the program. Potential source documents and evidence for answering questions in this section include authorizing legislation, agency strategic plans, performance plans/performance budgets, and other agency reports.

Options for answers are Yes, No or Not Applicable. Design flaws in the underlying legislation can and should be considered and supported by evidence, and are grounds for a No. Not Applicable answers are likely to be rare, particularly for items 1.1-1.4, as these questions should apply to virtually all programs. (For R&D programs, most of the questions in this section help address program "relevance," one of the three fundamental issues of the R&D Investment Criteria (see Appendix A).)

1.1 Is the program purpose clear?

Purpose of the question: to determine whether the program has a focused and well-defined mission. Determining this purpose is critical to determination of useful performance measures and targets.

Elements of a Yes answer: A Yes answer would require a clear and unambiguous mission. Considerations can include whether the program purpose can be stated succinctly. A

No answer would be appropriate if the program has multiple conflicting purposes.

Evidence/Data: Evidence can include a statement of the purpose and supporting objectives from the program's authorizing legislation, program documentation or mission statement.

1.2 Does the program address a specific and existing problem, interest, or need?

Purpose of the question: to determine whether the program addresses a specific problem, interest, or need that can be clearly defined and that currently exists.

Elements of a Yes answer: A Yes answer would require the existence of a relevant and clearly defined interest, problem or need that the program is designed to address. A Yes answer would also require that the program purpose is still relevant to current conditions (i.e., that the problem the program was created to address still exists). Considerations could include, for example, whether the program addresses a specific market failure. A No should be given if there is no clear need for the program.

Programs may receive a Yes to question 1.1 and a No on question 1.2 and vice versa.

For example, Housing and Urban Development's HOPE VI program had a clear purpose with a goal of demolishing 100,000 of the most severely distressed public housing units. However, the program has surpassed this goal and addressed the need for which the program was originally created. Therefore, the program received a Yes in 1.1 and a No in 1.2. In addition, the Department of Education Vocational Education program had an unclear mission caused by multiple and overlapping objectives. It was able to document, however, that a significant number of students are graduating from high school and community college without the necessary academic and technical skills. Therefore, the program received a No for 1.1 and a Yes for 1.2.

Evidence/Data: Evidence should describe the problem, interest or need that the program is designed to address and include relevant documentation. An example could be the number and income levels of uninsured individuals for

a program that provides care to those without health insurance.

1.3 Is the program designed so that it is not redundant or duplicative of any other Federal, State, local or private effort?

Purpose of the question: to determine whether the program is designed to fill a unique role or whether it instead unnecessarily duplicates or even competes with other Federal or non-federal programs.

Elements of a Yes answer: A Yes answer would require that the program does not excessively overlap with other Federal or non-federal efforts, including the efforts of State and local governments or the private and non-profit sectors. A consideration can include whether the program serves a population not served by other programs.

A No answer should be given when there is more than one program that addresses the same problem, interest, or need, regardless of the size or history of the respective programs. For programs that partially overlap with others, a No should be given when major aspects of the program, such as its purpose, targeted beneficiaries, or mechanisms, are duplicative. If there are two programs that significantly overlap and one is large and another is small, both programs should receive a No for this question.

Similar programs might be justified in receiving a Yes if a strong case can be made that fixed costs are low and competition is beneficial (e.g., perhaps multiple laboratories) or if more than one service delivery mechanism is appropriate (e.g., block grants for base activities and competitive grants for demonstration projects). Also, the standard of evidence to receive a Yes should be higher where Federal programs overlap with each other than where a Federal program overlaps with private, local, or State programs. For example, two Federal programs to address training would face a high standard to receive a Yes to this question; in contrast, a Yes could be provided to a Federal program to address indigent medical care across the nation, even though there are many local and private programs that also address indigent medical care. The key would be whether the gaps in the non-Federal provision are large enough to

warrant a Federal program and whether the Federal program is well designed to mesh with non-Federal efforts and responsibilities.

For credit programs, a Yes answer would require evidence of the market failure/absence or unwillingness of private-sector participation and an overview of the market, including all international, Federal, local, and private-sector participants.

For R&D programs, some degree of duplication is permissible, if it is well justified and coordinated. A Yes answer would require justification that the program provides value beyond that of any similar efforts at the agency, efforts at other agencies, or efforts funded by State and local government, private and non-profit sectors, or other countries. Justification first requires due diligence in identifying similar past or present efforts.

Evidence/Data: Evidence should identify duplicative programs and their total expenditures and/or a description of efforts supported by those programs that address a similar problem in a similar way as the program being evaluated.

1.4. Is the program design free of major flaws that would limit the program's effectiveness or efficiency?

Purpose of the question: to determine whether there are major design flaws in the program that limit its efficiency.

Elements of a Yes answer: The program should be free from major design flaws that prevent it from meeting its defined objectives and performance goals. To receive a Yes, there should be no strong evidence that another approach or mechanism would be more efficient or effective to achieve the intended purpose. A consideration could be whether the government would get the same or better outcome by expending fewer total resources through a different mechanism. For example, there may be evidence that a regulatory program to ensure public safety would be more effective than a grant program. Analysis should consider whether the program structure continues to make sense given changing conditions in the field (e.g., changing threat levels or

social conditions). Other considerations could include whether the program extends its impact by leveraging funds and contributions from other parties.

For credit programs, an additional consideration can include the extent to which a large number of borrowers would otherwise not have access to financial resources. Also consider whether the program costs are adequate, but not excessive, to achieve the policy goals. For example, a Yes answer could mean that the program effectively uses market mechanisms to reduce government risk and thus minimize program costs.

Regulatory programs should receive a No if the statute underlying the regulations is not designed to maximize net benefits.

For capital assets and service acquisition programs, a Yes answer requires that, in addition to the general criteria, the program is supported by an adequate capital asset management infrastructure that is consistent with the principles and techniques of effective capital programming, and has clear lines of authority, responsibility, and accountability for managing capital assets.

Evidence/Data: Evidence demonstrating efficient design can include cost effectiveness studies comparing alternative mechanisms (e.g., regulations or grants) with the current design (say, direct federal provision). Evidence on the relative benefits and costs of the activity are also useful.

Evidence for determining whether the threshold for capital programming has been met should include the documented program-relevant agency or bureau capital programming policies, directives, instructions, manuals, and assignment of authorities and responsibilities to agency personnel and organizational units.

1.5 Is the program design effectively targeted, so that resources will reach intended beneficiaries and/or otherwise address the program's purpose directly?

Purpose of the question: to determine whether the program is designed so that program resources will reach the intended beneficiaries efficiently and to avoid

unintended subsidies. "Beneficiaries" refers to those who benefit from the favorable outcome of the program. "Reach" refers to the distribution of benefits.

Unlike Question 1.4, which addresses examination of alternatives to achieve a program's goals, this question asks whether program resources under the chosen alternative are oriented toward the effective achievement of the program's purpose.

Elements of a Yes answer: A Yes answer would require that a program demonstrates that the right beneficiaries are being targeted, activities that would have occurred without the program are not subsidized (or receive only warranted levels of subsidies), and program funds are targeted effectively to meet program purposes.

Acceleration of activities due to Federal funding can be grounds for a Yes, but there should be evidence that the acceleration warrants the subsidy or application of funding. Acceleration of an activity that increases profits for a business -- that the firm would or could have undertaken eventually without the subsidy or application of funding -- would not generally qualify for a Yes, unless there are significant external (i.e., social) benefits from the activity.

In the case of block-grant and credit programs, the assessment should also consider how well funds are targeted to meet the program purpose and whether funds are protected against supplantation or substitution.

For R&D programs, a Yes answer would require identification of relevance to specific national needs, agency missions, fields of science or technology, or other "customer" needs. A customer may be another program at the same or another agency, an interagency initiative or partnership, a firm, or an organization from another sector or country. For these programs, the question refers to awardees of contracts, cooperative agreements or other transactions, as well as grants.

Evidence/Data: Evidence should show that the program is designed to 1) reach the highest practicable percentage of target beneficiaries, and 2) have the smallest practicable share of funds going to unintended beneficiaries. Regarding item 1, a small program may only

be able to reach a small number of beneficiaries, but it should be well targeted on some merit basis. On item 2, programs not designed to avoid unwarranted shares of funding going to beneficiaries who do not need or merit the funding should receive a No answer. Programs that are designed in a way that is likely to result in significant levels of erroneous payments should receive a No.

II. STRATEGIC PLANNING

This section focuses on program planning, priority setting, and resource allocation. Key elements include an assessment of whether the program has a limited number of performance measures with ambitious -- yet achievable -- targets, to ensure planning, management, and budgeting are strategic and focused. Potential source documents and evidence for answering questions include strategic planning documents, agency performance plans/performance budgets and reports, reports and submissions from program partners, evaluation plans, and other program documents.

Options for answers are Yes, No or Not Applicable. While it is recognized that some programs may have greater difficulty than others in developing quantitative performance goals, programs must have meaningful and appropriate methods for demonstrating results. OMB and agencies should work together to develop approaches for programs where it is difficult to develop quantitative measures, and where qualitative, expert-review, or other measures are more appropriate. For R&D programs, most questions in this section help address the prospective aspects of the R&D Investment Criteria (see Appendix A).

2.1 Does the program have a limited number of specific long-term performance measures that focus on outcomes and meaningfully reflect the purpose of the program?

Purpose of the question: to determine if the program has long-term performance measures to guide program management and budgeting and promote results and accountability. This question seeks to assess whether the program measures are salient, meaningful, and capture the most important aspects of program purpose and appropriate strategic goals.

Elements of a Yes answer: A Yes requires two or three specific, easily understood outcome measures that directly and meaningfully support the program's purpose. "Long-term" means a long period relative to the nature of the program, likely 5-10 years, and consistent with time periods for strategic goals used in the agency's GPRA strategic plan.

The performance measures should focus mainly on outcomes, although in some cases output measures are permissible. The measures may be those developed to comply with GPRA, so long as they meet the "Performance Measures" section of this document. Otherwise, OMB and agencies should revise the measures to fully meet GPRA and PART standards. A Yes answer can also be given if OMB and the agency have reached agreement on a limited number of long-term measures that will be added to the 2006 GPRA strategic plan or performance plan/performance budget. Significant changes to the GPRA strategic plan may require stakeholder consultation.

Output measures only meet the standards of a Yes answer if the program can produce sound justification for not adopting outcome measures. For example, a program that is exclusively focused on processing applications and is unable to adequately define a quantifiable outcome measure may use measures that focus on increases in accuracy and/or timeliness of service delivery. Whenever output measures are proposed, the program must clearly show how such measures reflect progress toward desired outcomes.

An example of an unacceptable long-term measure is a housing program that is proposing using a measure of "number of housing units constructed." In this case, such an output is unacceptable as the program is expected to articulate and measure progress toward achieving outcomes (e.g., increases in homeownership rates, increases in housing equity in low-income communities).

For more detailed discussion on when output measures may be used as proxy measures for outcomes, please see "Selecting Performance Measures" section of the PART guidance or visit OMB's website at <http://www.omb.gov/part/>.

A No must be given for long-term measures that do not directly and meaningfully relate to the program's purpose or are unnecessarily focused on outputs and lack adequate justification. A program must not receive a No for having too many measures, if it has identified a few high-priority ones that represent important aspects of the program.

Performance measures should be listed in the Measures tab of the PART worksheet. Only measures that meet the standards for a Yes should be entered on the worksheet.

For block grant programs that support a wide range of purposes and allow grantees to set their own program priorities, measures that address the extent to which grantees meet their own goals or effectively target populations are options if no better measures are possible.

For R&D programs, OMB will work with agencies to assess existing or develop appropriate measures. Some R&D programs, especially in basic research, may not be required to provide long-term efficiency measures, due to the uncertainty of outcomes and the years it takes to achieve and recognize them.

Evidence/Data: Evidence will include the long-term measures established for the program either in the existing agency GPRA documents or other program documents or as agreed to by OMB and to be included in the 2006 GPRA documents. In the case of new measures, if targets and baselines are not defined, a plan for their development (i.e., timeline, methods for data collection, responsible office and/or staff) must be agreed to by the agency and OMB.

2.2 Does the program have ambitious targets and timeframes for its long-term measures?

Purpose of the question: to determine if the program has challenging but realistic quantifiable targets and timeframes for the long-term measures.

Elements of a Yes answer: A Yes answer requires that specific quantified targets have been developed for measures evaluated in Question 2.1. (Where targets are not "quantitative," they still must be verifiable, e.g.,

through a clean audit or outstanding ratings by an expert panel). Baselines from which to measure targets are encouraged for outcome measures and required for output measures. Targets and timeframes must be ambitious, that is, they must be set at a level that promotes continued improvement within achievable efficiencies. Where relevant, a Yes also requires that a program has defined an appropriate end target.

A No is appropriate if quantified targets or timeframes are not included for key measures or if the targets or timeframes are not ambitious or challenging.

If the program received a No in Question 2.1, the program must get a No for this question.

Targets must be listed in the Measures tab of the PART worksheet.

For R&D programs, a Yes answer would require that the program provides multi-year R&D objectives. Where applicable, programs must provide schedules with annual milestones, highlighting any changes from previous schedules. Program proposals must define what outcomes would represent a minimally effective program and a successful program.

Evidence/Data: Evidence will include targets in existing agency GPRA documents or other program documents or as agreed to by OMB and to be included in the 2006 GPRA documents.

2.3 Does the program have a limited number of specific annual performance measures that can demonstrate progress toward achieving the program's long-term goals?

Purpose of the question: to determine whether a limited number of annual performance measures have been identified that directly support the long-term goals evaluated in Questions 2.1 and 2.2. The measures should be logically linked to the long-term goals in a manner that enables them to demonstrate progress toward achieving those long-term goals.

Elements of a Yes answer: A Yes answer would require annual performance measures that are discrete, quantifiable, and measurable. Most importantly, these

annual measures should measure the program's progress toward reaching the long-term goals evaluated in Questions 2.1 and 2.2. The annual performance measures may focus on outputs and may or may not be those developed by the agency to comply with GPRA. A Yes answer can also be given, if OMB and the agency have reached agreement on a limited number of annual measures that will be included in the 2006 GPRA performance plan/performance budget.

To receive a Yes answer, programs must have at least one efficiency measure or be developing one. If a measure is under development, a schedule for adoption (i.e., timeline, methods for data collection, responsible office and/or staff) must be agreed to by the agency and OMB.

For more detailed discussion on defining acceptable efficiency measures please see "Selecting Performance Measure" section of the PART guidance or visit OMB's website at <http://www.omb.gov/part/> .

Programs that are unable to provide an efficiency answer may only receive a Yes to this question if they are able to adequately explain why adoption of such a measure is not feasible (e.g., some basic R&D programs).

If the program received a No in Question 2.1, an explanation of how annual performance goals contribute to desired long-term outcomes and purpose of the program must be provided to receive a Yes for this question. Performance measures should be listed in the Measures tab of the PART worksheet. Only measures that meet the standards for a Yes should be entered on the worksheet.

For block grant programs that support a wide range of purposes and allow grantees to set their own program priorities, measures that address the extent to which grantees meet their own goals or effectively target populations are options if no other measures are possible.

For R&D programs, a Yes answer would require that the program has annual performance measures to track how the program could improve scientific understanding and its application. For R&D programs that have multi-year schedules, the annual measure should tie into the longer term milestones, as appropriate. Some basic research

programs may not be able to define meaningful annual outcome or efficiency measures. In such cases, these programs may use process-related indicators (see Question 3.4), if the program can explain how those processes are directed toward the intended long-term goals. OMB will work with agencies to address appropriate measures.

For capital assets and service acquisition programs, a Yes answer requires that, in addition to the general criteria, annual performance measures include those that are sufficient to track achievement of the cost, schedule, and performance goals of asset acquisitions as they relate to the overall program.

Evidence/Data: Evidence will include the annual measures established for the program in the agency GPRA performance plan/performance budget or other program documents, or they may be new measures as agreed to by OMB and which will be included in the 2006 GPRA performance plan/performance budget. Evidence for capital asset acquisition programs includes agency acquisition and project management working documents, contract performance measures and metrics, and business cases (OMB Circular A-11 Exhibit 300s).

2.4. Does the program have baselines and ambitious targets for its annual measures?

Purpose of the question: to determine if the program has baselines and challenging but realistic quantified targets for the annual measures.

Elements of a Yes answer: A Yes answer would generally require that baselines have been established for most of the annual measures evaluated in Question 2.3. A Yes answer also requires that specific quantified annual targets have been developed for most of the program's annual measures evaluated in Question 2.3. These targets provide a specific value with which performance can be compared. These targets must be ambitious, that is they must be set at levels that ensure continued improvement and realization of efficiencies. They also should be within reason for the program to achieve.

A No answer would be appropriate if quantified targets or timeframes are not included for most measures or if the targets are not ambitious or challenging.

If the program received a No in Question 2.3, the program must get a No for this question. Targets should be listed in the Measures tab of the PART worksheet.

Evidence/Data: Evidence will include targets in the agency GPRA performance plan/performance budget or other program documents or as agreed to by OMB and will be included in the 2006 GPRA performance plan/performance budget.

2.5. Do all partners (including grantees, sub-grantees, contractors, cost-sharing partners, and other government partners) commit to and work toward the annual and/or long-term goals of the program?

Purpose of the question: to determine whether program efforts carried out by program partners also support the annual and long-term performance goals of the program.

Elements of a Yes answer: A Yes answer would require that program managers strive to ensure that partners support the overall goals of the program and measure and report on their performance as it relates to accomplishing those goals. For example, a program that requires all grant agreements and contracts to include performance measures that will help the program achieve its goals and monitor those measures would receive a Yes.

If, however, a program does not through a performance requirement or some other means get program grantees to link their activities to the program's goals, a No would be appropriate. The most obvious example of a partner is an entity receiving program funding. While a program cannot always control the activities of its partners, it can exert influence through a number of various mechanisms.

If the program received a No for both Questions 2.1 and 2.3, the program must receive a No for this question.

In the case of regulatory programs, all regulated entities are not necessarily defined as program partners.

For programs funding grants for basic research, a Yes answer can be achieved if the program solicitation explicitly includes the program goals, and grant applications and progress reports provide sufficient

means for the program manager to assess performance and continuing relevance.

Evidence/Data: Evidence can include contracts and other documents that tie contractor performance to program goals, as well as other procedures the program uses to get partners to commit to, measure, and report on performance related to the program's goals.

2.6. Are independent evaluations of sufficient scope and quality conducted on a regular basis or as needed to support program improvements and evaluate effectiveness and relevance to the problem, interest, or need?

Purpose of the question: to ensure that the program (or agency) conducts non-biased evaluations on a regular or as-needed basis to fill gaps in performance information. These evaluations should be of sufficient scope to improve planning with respect to the effectiveness of the program. (For R&D programs, this question is central to prospective planning to address all of the R&D investment criteria (see Appendix A).)

Elements of a Yes answer: A Yes answer would require regularly scheduled objective, high quality, independent evaluations that examine how well the program is accomplishing its mission and meeting its long-term goals. A Yes answer also would require that program evaluations address the following elements of quality, scope, and independence.

Not Applicable is not an option for this question; given the flexibility in determining what constitutes an evaluation, all programs should undergo an evaluation that meets the following elements of quality, scope, and independence. Quality. Evaluations should be sufficiently rigorous to provide information on the effectiveness of the program and, for programs that support or employ a range of services and approaches, information on the effectiveness of the various services and approaches. To receive a Yes, agencies should provide evidence that they have chosen and applied evaluation methods that provide the most rigorous evidence of a program's effectiveness that is appropriate and feasible. A program may receive a Yes for this question if the agency and OMB determine that existing evaluations do not provide the most rigorous evidence possible, but that the program is in

the process of developing new evaluation approaches that will provide the most rigorous evidence possible by a specified future date.

The purpose of the question is to find out whether agencies have evaluations that assess the effectiveness of the program. The most significant aspect of program effectiveness is impact—the outcome of the program, which otherwise would not have occurred without the program intervention. Where it is feasible to measure the impact of the program, randomized controlled trials are generally the highest quality, unbiased evaluation to demonstrate the actual impact of the program. However, these studies are not suitable or feasible for every program, and a variety of evaluation methods may need to be considered because Federal programs vary so dramatically. Other types of evaluations, including well-designed quasi-experimental studies, may provide useful information about the impact of a program (but should be scrutinized given the increased possibility of an erroneous conclusion) and/or can help address how or why a program is effective (or ineffective) (i.e., meeting performance targets, achieving efficiency, fulfilling stated purpose).

Overall, evaluations must be appropriate to the type of program. Agencies and OMB should consult evaluation experts, either in-house and/or external, as appropriate, when deciding what type of evaluation will provide the most rigorous evidence appropriate and feasible. The following are several links to references on program evaluation located on the internet that are not intended to be exhaustive, but which may be helpful:

Program Evaluation Methods: Measurement and Attribution of Program Results; Treasury Board of Canada, Secretariat; 1998. (a book available online)
http://www.tbs-sct.gc.ca/eval/pubs/meth/pem-mep_e.pdf

Understanding Impact Evaluation; The World Bank Group. (a web site)
<http://www.worldbank.org/poverty/impact/index.htm>

"Program Evaluation: An Evaluation Culture and Collaborative Partnerships Build Agency Capacity;" GAO-03-454; U.S. General Accounting Office; May 2003.

<http://www.gao.gov/docdblite/summary.php?recflag=&accno=A06797&rptno=GAO-03-454>

"Performance Measurement and Evaluation: Definitions and Relationships;" GAO/GGD-98-26; U.S. General Accounting Office; April 1998.
<http://www.gao.gov/docdblite/summary.php?recflag=&accno=160204&rptno=GGD-98-26>

"Designing Evaluations;" GAO/PEMD-10.1.4; U.S. General Accounting Office; May 1991.
<http://161.203.16.4/t2pbat7/144040.pdf>

Randomized Controlled Trials: A User's Guide; Jadad, Alejandro A.; BMJ Books; 1998. (a book available online)
<http://www.bmjpg.com/rct/contents.html>

Research Methods Knowledge Base; Trochim, William M.; Cornell University. (a web site)
<http://trochim.human.cornell.edu/kb/>

"Identifying and Implementing Educational Practices Supported By Rigorous Evidence: A User Friendly Guide;" U.S. Department of Education; December 2003.
<http://www.ed.gov/rschstat/research/pubs/rigoroussevid/rigoroussevid.pdf>

Scope. This question looks directly at whether there are evaluations on the program's achievement of performance targets, and that these evaluations examine the underlying cause and effect relationship between the program and the target. In cases where a comprehensive evaluation is unnecessary based on the known effectiveness of an intervention and performance data on the program, evaluations that fill gaps in performance information can meet the elements of a Yes answer. A program's effectiveness, including impact, also may be considered. A program may receive a Yes for this question if the agency and examiner determine that existing evaluations are inadequate, but the program is in the process of developing an appropriate evaluation to be completed by a specified future date.

Evaluations also should include recommendations on how to improve the program's performance. To ensure the program continues to meet its performance targets, an evaluation

should be scheduled on a periodic basis, such as every two to five years, or whatever time schedule is reasonable based on the specific program and its mission and goals.

R&D programs also should undergo independent reviews of relevance to their agencies, fields of science or technology, or customers, (e.g., of process) in addition to assessing questions of performance. These reviews should conclude with reports documenting the findings and recommendations. A "customer" may be another program at the same or another agency, an interagency initiative or partnership, or a firm, an organization from another sector or country, or the general public. Industry-relevant programs may use industry cost-sharing of associated projects as an indicator of market-relevance, and they should incorporate industry in planning and prioritization. Reviews should be rigorous and methodical and be a critique of the program's methods, results and findings by others in the field with requisite training, expertise, and independence.

Independence. To be independent, non-biased parties with no conflict of interest would conduct the evaluation. Evaluations conducted by the program itself should generally not be considered "independent;" however, if the agency or program has contracted out the evaluation to a third party this may qualify as being sufficiently independent. Evaluations conducted by an agency's Inspector General or program-evaluation office might also be considered "independent." OMB examiners and agency staff will determine if a specific evaluation can be considered "independent" for this question.

If a program has had previous evaluations that meet the elements of independence and scope, but that were not sufficiently rigorous, and the program is developing or about to conduct a new program evaluation using the most rigorous method that is feasible and appropriate, then the program would receive a Yes.

In the absence of ANY independent evaluations, a program would receive a No, unless it is planning to carry out a rigorous program evaluation in the near future. A No answer would also be appropriate for a program that has insufficient independent evaluation data or has evaluations that address process and not performance.

Evidence/Data: Evidence should include a program evaluation plan or schedule of program evaluations and program documentation describing the type of evaluation, including scope and quality, and the criteria for selecting an independent evaluator.

2.7. Are Budget requests explicitly tied to accomplishment of the annual and long-term performance goals, and are the resource needs presented in a complete and transparent manner in the program's budget?

Purpose of the question: to establish whether the performance-planning and budget-planning processes are integrated so that 1) resource allocation decisions reflect desired performance levels (given resource constraints) and 2) the effects of funding and other policy changes on results are clear.

Elements of a Yes answer: A Yes answer should reflect effective program budgeting based on sound levels for 1) annual and long-term performance targets and 2) budget resources. To receive a Yes, the program must provide a presentation that makes clear the impact of funding, policy, or legislative decisions on expected performance and explains why the requested performance/resource mix is appropriate. A program with budget planning that is not tied to performance or strategic planning would receive a No.

A Yes answer would also require that the program report all direct and indirect costs needed to attain the performance results, including applicable agency overhead, retirement, and other costs that might be budgeted elsewhere. The exclusion of minor amounts of services provided from central departmental offices (e.g., Office of the Secretary) from program costs does not require a program to receive a No answer. However, a program that generates significant costs - which might range from radioactive waste disposal to attorneys' salaries - that must be addressed by another program should budget for these costs or, at a minimum, provide this information in clear display tables that display the full costs of attaining results.

For capital assets and services acquisition programs, a Yes answer requires that, in addition to the general criteria, programs explain the relationship of asset

acquisitions to overall program performance goals and would be able to identify impacts of changes on program performance (for example, the effect of a change in the quantity acquired).

Evidence/Data: Evidence can include documentation of how the budget request directly supports achieving performance targets. Budget documents should also clearly indicate the full costs of achieving performance goals, even if some of these costs do not appear in the specific account or activity line of the program.

Also, evidence can include an agency program budget estimate that identifies all spending categories in sufficient detail to demonstrate that all relevant costs are included or a report that shows the allocation of all significant program overhead costs to the program.

2.8. Has the program taken meaningful steps to correct its strategic planning deficiencies?

Purpose of the question: to determine whether the program is on track to correct any strategic planning deficiencies that have been identified.

Elements of a Yes answer: A Yes answer would require that the program has acted to correct strategic planning deficiencies. A program that does not review planning efforts or does not make corrections to eliminate identified deficiencies would receive a No. The question addresses any deficiencies identified in this section. Particular emphasis, however, should be placed on whether the program is working to adopt a limited number of specific, ambitious long-term performance goals and a limited number of annual performance goals that demonstrate progress toward achieving the long-term goals, if they do not already have these measures or associated baselines, targets, and timeframes.

For Capital Assets and Service Acquisition programs (and relevant R&D programs), one strategic planning deficiency to be addressed is if the program has in the past received a No to Question 4.CA1.

Evidence/Data: Evidence can include a description of how deficiencies in the strategic planning of a program are

identified and corrected, as well as examples of such changes.

Specific Strategic Planning Questions by Program Type

Regulatory Based Programs

2.RG1. Are all regulations issued by the program/agency necessary to meet the stated goals of the program, and do all regulations clearly indicate how the rules contribute to achievement of the goals?

Purpose of the question: to determine whether the program had developed regulations with clearly specified goal(s). It should be determined whether (1) the program is only issuing those rules absolutely necessary to achieve long-term program goals and is not over-regulating, (2) all of the rules necessary to meet the program goals have been issued, and (3) the regulations clearly indicate how they help to meet the program goals.

Elements of a Yes answer: A Yes answer would require that only those regulations that are absolutely necessary to accomplish the program mission and goals are promulgated or are in the process of being promulgated; this determination should be based on the standards laid out in Executive Order 12866 on the identification of the need for the regulation and the identification of the market failure (if applicable). Additionally, the public should be able to understand how the regulations fit into the overall achievement of the program goals. A Yes response indicates that there are no superfluous regulations, that regulations are planned or in the process of being promulgated to cover regulatory gaps where new regulations are required to accomplish program goals, and that the Preamble of each program regulation indicates how the rule contributes to the achievement of specific program goals.

A program would receive a No if it has 1) obvious regulatory gaps or outdated regulations in effect and 2) not initiated planned actions to rectify these problems in a timely manner.

Evidence/Data: Evidence can include legislation that indicates specifically or generically what regulations need to be promulgated as well as the rules themselves, especially the preambles. It can also include internal agency guidance indicating a process is in place to ensure rulemaking involves a clear linkage of the need for the rule to a stated goal. In this case, the agency should be able to clearly articulate this association.

NOTE: Questions 2.RG1, 3.RG3, and 4.RG1 address the progression of reviews for a program's rules. Specifically, 2.RG1 addresses targeted development of regulations,

3.RG3 addresses effective implementation of regulations, and 4.RG1 addresses maximization of potential benefits during the regulation's implementation.

Capital Assets and Service Acquisition Programs

R&D programs addressing the acquisition, construction or operation of facilities or other capital assets should answer the Capital Assets and Service Acquisition question 2.CA1).

2.CA1. Has the agency/program conducted a recent, meaningful, credible analysis of alternatives that includes trade-offs between cost, schedule, risk, and performance goals and used the results to guide the resulting activity?

Purpose of the question: to determine whether the agency is investing in an asset or service that provides the best value to the government.

Elements of a Yes answer: To receive a Yes response, the agency should have conducted analyses of alternatives and use those analyses. Each analysis should include the baseline assessment/status quo, non-material solutions (e.g., data compression in lieu of a new data cable), consideration of alternatives (including alternatives to capital assets and benefit-cost analysis in accordance with OMB Circular A-94), and trade-offs between cost, schedule, and performance

goals. The program should be able to demonstrate that the analysis is credible (e.g., by having it reviewed and validated by an independent entity outside the program). If an independent entity's analysis differs from the program's analysis, the program should defend differences.

Evidence/Data: Evidence can include a summary of the analysis of alternatives, and documentation of any independent reviews of the analysis. As one source of data, an agency capital asset plan or business case (Exhibit 300) documentation may also be used.

Research and Development Programs

R&D programs addressing the acquisition, construction or operation of facilities or other capital assets should answer the Capital Assets and Service Acquisition question (2.CA1).

2.RD1. If applicable, does the program assess and compare the potential benefits of efforts within the program and (if relevant) to other efforts in other programs that have similar goals?

Purpose of the question: to determine whether applicable programs are evaluating their efforts with respect to their relative potential benefits. Applicable programs include those applied R&D programs that pursue multiple options toward achieving similar public benefits. (This question addresses the first of the industry-related R&D criteria, regarding the articulation of program benefits (see Appendix A).)

Elements of a Yes answer: To receive a Yes rating, the program (or agency) should conduct periodic comparisons of the potential benefits of its proposals with alternatives. The program should be able to demonstrate that the analysis is credible (e.g., by having it reviewed and validated by an independent entity outside the program). If an independent entity's analysis differs from the program's analysis, the program should defend differences.

Evidence/Data: Evidence can include an analysis comparing proposed approaches with alternative strategies. OMB will work with agencies as needed to assist in the content and structure of these assessments.

2.RD2. Does the program use a prioritization process to guide budget requests and funding decisions?

Purpose of the question: to determine whether the program has clear priorities and uses them in budget requests and funding decisions. (This question addresses the R&D "relevance" criterion (see Appendix A).)

Elements of a Yes answer: A Yes answer would require a documented process to identify priorities and use them, as well as an identified set of current priorities among program goals, objectives, and activities.

R&D programs are encouraged to work with independent advisory bodies to help prioritize in ways that benefit the larger science and technology enterprise.

Evidence/Data: Evidence can include clear statements of program priorities in program documentation or mission statements, as well as documentation of the priorities identified by any qualified independent advisory bodies.

III. PROGRAM MANAGEMENT

This section focuses on a variety of elements related to whether the program is effectively managed to meet program performance goals. Key areas include financial oversight, evaluation of program improvements, performance data collection, and program manager accountability. Additionally, specific areas of importance for each program type are also explored. Potential source documents and evidence for answering questions in this section include financial statements, GAO reports, IG reports, performance plans, budget execution data, IT plans, and independent program evaluations.

Options for answers are Yes, No or Not Applicable. (For R&D programs, some of the questions in this section help address the prospective aspects of program "quality" and "performance" of the R&D Investment Criteria, in addition to addressing general program management issues (see Appendix A).)

3.1. Does the agency regularly collect timely and credible performance information, including information from key program partners, and use it to manage the program and improve performance?

Purpose of the question: to determine whether the program collects data on performance and the performance of its partners and uses the data to inform program management, resource decisions, and program performance.

Elements of a Yes answer: A Yes answer would require that the program agency regularly collect high-quality performance data relating to key program goals and use that information to adjust program priorities, allocate resources, or take other appropriate management actions. When key program activities are carried out by other entities, such as grantees, agencies should also consider their performance as well. A Yes also requires that the agency has collected the baseline performance data necessary to set meaningful, ambitious performance targets.

Program partners are other agencies or intermediaries responsible for carrying out different aspects of the program and might include partner agencies, grant recipients, participating financial institutions, regulated bodies, and contractors. Timely performance information is information that reflects current performance and is current enough to be useful in program management. Credible performance information is information that is collected through a systematic process with quality controls to confirm the validity of the data.

For capital assets and service acquisition programs, a consideration is whether the program uses an earned value management system or similar system.

For credit programs, consider whether the agency or program managers regularly collect and update loan

performance information to effectively and consistently manage the portfolios.

Some long-term basic research programs may not be able to define meaningful annual outcome performance measures, aside from process measures. In such cases, these programs may use process-related measures, especially those that can be conceptually linked to long-term research goals.

Evidence/Data: Evidence can include a description of how the agency uses performance information in managing the program, as well as illustrative examples of recent management actions based on performance information. Evidence can also include steps taken by a program to enact necessary improvements cited by a specific evaluation.

3.2 Are Federal managers and program partners (including grantees, sub-grantees, contractors, cost-sharing partners, and other government partners) held accountable for cost, schedule and performance results?

Purpose of the question: to determine whether the program managers and partners are accountable for achieving program results.

Elements of a Yes answer: A Yes answer would require that the program agency identify the managers who are responsible for achieving key program results and establish performance standards for those managers. When program partners contribute to the achievement of program goals, a Yes would also require those partners to achieve specific performance standards.

In the case of block and formula grant programs, elements of a Yes are not confined to complying with the law. Elements of a Yes can include the presence of incentives for managers and program partners that would encourage corrections in deficient programs. For block-grant programs which support a wide range of purposes and allow grantees to set their own program priorities, this question should be interpreted as whether the grantees hold managers accountable and encourage corrections in deficient programs.

For capital assets and service acquisition programs, a consideration is whether contracts include minimum performance thresholds, incentives for good performance, or other mechanisms to increase accountability.

Some long-term basic research programs may not be able to define meaningful annual outcome performance measures, aside from process measures. In such cases, these programs may use process-related measures, especially those that can be conceptually linked to long-term research goals.

Evidence/Data: Evidence can include the use of performance management contracts with program managers, or some other mechanism for incorporating program performance into personnel performance evaluation criteria. Evidence of partners' accountability can include requiring grant and contract awards and renewals to consider past performance.

3.3 Are funds (Federal and partners') obligated in a timely manner and spent for the intended purpose?

Purpose of the question: to determine whether funds are administered efficiently and obligated in accordance with planned schedules and spent for the intended purposes.

Elements of a Yes answer: A Yes answer would require that the program funds be obligated consistently with the overall program plan and that a limited amount of unobligated funds remain at the end of the year. A Yes answer would also require that programs and partners establish schedules for obligations that properly correspond to the resource needs of the program plan. In addition, a Yes answer requires that adequate procedures exist for reporting actual expenditures, comparing them against the intended use, and taking timely and appropriate action to correct single audit findings when funds are not spent as intended.

A program would receive a No if it had significant erroneous payments or was in violation of the Anti-Deficiency Act.

Evidence/Data: Evidence can include periodic and year-end spending reports from the program and its partners.

Evidence on expenditures can include spending reports that draw intended purpose from the Congressional Justifications, Appropriations, and program operating plans and match them against actual spending. For grantees, evidence can include grantee audit reports under the Single Audit Act, including data captured in the Federal Audit Clearinghouse, and the existence of an established procedure for reviewing actual expenditures against budgets in grant awards or appropriate Federal guidelines.

A No answer is strong evidence that a No may be warranted for Question 3.6, which examines financial management more generally.

3.4. Does the program have procedures (e.g., competitive sourcing/cost comparisons, IT improvements, appropriate incentives) to measure and achieve efficiencies and cost effectiveness in program execution?

Purpose of the question: to determine whether the program has effective management procedures in place to ensure the most efficient use of each dollar spent on program execution.

Elements of a Yes answer: The answer to this question should focus on whether the program has regular procedures in place to measure and achieve efficiencies and cost effectiveness, recognizing that various types of procedures may be acceptable. A Yes would require that the program's performance plans include efficiency measures and targets, such as per-unit cost of outputs, timing targets, and other indicators of efficient and productive processes germane to the program. In addition, there are other acceptable ways to demonstrate that a program has established procedures for measuring and achieving efficiencies and cost effectiveness. For example, a program that regularly uses competitive sourcing to determine the best value for the taxpayer, invests in IT with clear goals of improving efficiency, etc., could receive a Yes. A de-layered management structure that empowers front line managers and that has undergone competitive sourcing (if necessary) would also contribute to a Yes answer. For mandatory programs, a Yes could require the program to seek policies (e.g., through review of proposals from States) that would reduce unit costs. Also consider if, where possible, there is cross-

program and inter-agency coordination on IT issues to avoid redundancies.

For R&D programs, efficiency measures can include program overhead costs, average times to fund competitive awards, etc.

Evidence/Data: Evidence can include efficiency measures, competitive-sourcing plans, and IT improvement plans designed to produce tangible productivity and efficiency gains, or IT business cases that document how particular projects improve efficiency.

3.5. Does the program collaborate and coordinate effectively with related programs?

Purpose of the question: to determine whether a Federal program collaborates with other related program(s) in a meaningful way.

Elements of a Yes answer: A Yes answer would require that the program collaborate with related Federal programs and, to the extent appropriate or possible, with related State, local, and private programs. A Yes answer would require that the program show evidence of collaboration leading to meaningful actions in management and resource allocation. For example, the existence of a coordinating council would not by itself constitute meaningful collaboration. (This question applies to programs that have interrelated, but separately budgeted, efforts. An example of an interrelated Federal program is the shared effort of the Department of Veterans Affairs and the Medicare Program to provide care for aging veterans.) Meetings, discussions groups, and task forces are not sufficient for a Yes. A Yes requires evidence of collaboration leading to meaningful actions in management and resource allocation.

Evidence/Data: Evidence of meaningful collaboration could include joint grant announcements, planning documents, performance goals, or referral systems.

3.6. Does the program use strong financial management practices?

Purpose of the question: to determine whether the program uses effective financial management practices in administering program funds.

Elements of a Yes answer: A Yes answer would require that, at a minimum, the program be free of material internal control weaknesses reported by auditors. In addition, depending on the particular risks inherent to the program, a Yes may require meeting some or all of the following criteria:

- The program has procedures in place to ensure that payments are made properly for the intended purpose to minimize erroneous payments.
- Financial management systems meet statutory requirements.
- Financial information is accurate and timely.
- Integrated financial and performance systems support day-to-day operations.
- Financial statements receive a clean audit opinion and have no material internal control weaknesses.

If an agency-wide material weakness exists that is unrelated to the program, then a Yes response would be appropriate. However, if an agency-wide material weakness has a direct relation to the program (e.g., a lack of systems that support day-to-day operations), then the program would receive a No for this question.

For block-grant programs which support a wide range of purposes and allow grantees to set their own program priorities, a Yes answer should also require that grantees (e.g., States and localities) meet the criteria for effective financial management identified above.

For credit programs, a Yes answer would also require that the program consistently meets the requirements of the Federal Credit Reform Act of 1990, the Debt Collection Improvement Act and applicable guidance under OMB Circular A-129.

Evidence/Data: Evidence can include recent audit reports and existence of procedures to identify the above-listed

criteria, such as the ability to measure improper payments.

Unlike Question 3.3, the presence of significant erroneous payments does not automatically generate a No for this question. Specifically, if an agency has instituted strong financial management controls that are demonstrating measurable improvements in erroneous payments over time, then a Yes may be appropriate. Nevertheless, a No on Question 3.3 is strong evidence that a No may be appropriate for this question.

For credit programs, evidence can include actual reports detailing the performance of the agency's portfolio management, subsidy calculations, re-estimates, modifications, etc. Other evidence can include independent evaluations of the program's performance.

3.7. Has the program taken meaningful steps to address its management deficiencies?

Purpose of the question: to determine whether the program has developed a system of evaluating program management and correcting deficiencies when they are identified. This question should include, but is not limited to, financial management or other Presidential Management Agenda deficiencies. However, the focus of the question is program-level deficiencies, as opposed to agency-level deficiencies that may not directly affect the program.

Elements of a Yes answer: A Yes answer would require that the program has a system for identifying and correcting program management deficiencies and uses the system to make necessary corrections. A program that does not review program management activities and make corrections to eliminate identified deficiencies would receive a No.

Evidence/Data: Evidence can include a description of how deficiencies in the program management are identified and corrected as well as examples of such changes.

Specific Program Management Questions by Program Type

Competitive Grant Programs

3.CO1. Are grants awarded based on a clear competitive process that includes a qualified assessment of merit?

Purpose of the question: to determine whether or not grant funds are distributed according to a competitive process so that the most meritorious applications are awarded and so that new applicants of merit will be able to compete fairly with previous grant recipients. (For R&D competitive grants programs, this question is central to addressing the R&D "quality" criterion (see Appendix A).)

Elements of a Yes answer: A Yes answer would require that the overwhelming majority of awards (95 percent or more of funding) are distributed according to a competitive process. Elements of the process can include independent merit review and ranking of applications, as well as a limit on the percentage of funds that are earmarked. A Yes answer would also require that the program operate a fair and open competition and provide a reasonable amount of outreach to encourage the participation of new grantees. Fair and open does not mean that data should not be protected (e.g., to meet classification needs, to protect personal data or, for an appropriate span of time, intellectual property.) or that other reasonable qualification standards can't be imposed (e.g. meets status as an academic organization). Considerations can include whether the program tends to provide grants to the same list of grantees year after year. Awards may be renewed and considered competitive if the original award was competitively awarded, renewals only extend for a short and definite period of time and the possibility of renewal is announced in the original competition..

For R&D programs, the same competitive hurdle should apply for external projects, although a tightly defined internal program can be maintained if the agency can clearly show that it is needed to provide for the maintenance of scientific expertise in-house. Unsolicited, potentially breakthrough ideas and out-of-the-box proposals can be part of the portfolio if they are merit-reviewed from the beginning. If such proposals compete fairly against a significant number of other proposals for a share of funding, they may be considered to meet the competitive standard even if

they don't respond to a specific request for proposal. In addition to grants, allowable transactions may include mechanisms such as contracts or other transactions. (Merit review processes and ranking of applications should also apply to these transaction vehicles.)

Evidence/Data: Evidence can include a description of the awards process, percentage of funds earmarked, and percentage of funds subject to peer review. Evidence can also include the relative number of new awardees per award cycle and technical assistance and outreach efforts of the agency.

3.CO2. Does the program have oversight practices that provide sufficient knowledge of grantee activities?

Purpose of the question: to determine whether or not the program has an understanding of how its funds are utilized by grantees.

Elements of a Yes answer: A Yes answer would require that a program have sufficient oversight capacity. This capacity may be demonstrated by a program that has a reporting system in place to document grantees' use of funds in eligible activity categories, conducts site visits to a substantial number of grantees on a regular basis, audits grantee performance, and tracks actual expenditures to verify that funds are used for their designated purpose. A program with a strong relationship to its grantees and a high level of understanding of what grantees do with the resources allocated to them would receive a Yes.

A program with a poor reporting system to track expenditures by grantees would receive a No rating.

For R&D programs, the above standards would apply, but in addition to grants and grantees they would apply to contracts, cooperative agreements and other transactions and their awardees.

Evidence/Data: Evidence can include the reporting structure, oversight techniques, audit or site visit schedule, and/or an assessment of program data quality.

3.CO3. Does the program collect grantee performance data on an annual basis and make it available to the public in a transparent and meaningful manner?

Purpose of the question: to determine whether or not the program has a system in place to collect and present publicly information that captures the most important impacts of program performance.

Elements of a Yes answer: A Yes would require that the program collects, compiles and disseminates grantee performance information in an accessible manner, such as via a web site or widely available program reports. Data would be both aggregated on a program-wide level and disaggregated at the grantee level. The assessment about the appropriate level of aggregation of results may depend upon needs to protect certain data, such as classified data, personal data or, for a limited span of time, intellectual property.

A program would receive a No if grantee performance information is not available to the public, or if it is only aggregated at a high level. Similarly, a program could receive a No response if the data it presents are not related to the impact of the program.

For R&D programs, the above standards would apply, but in addition to grants and grantees would apply to contracts, cooperative agreements and other transactions and their awardees.

Evidence/Data: Evidence can include citations of the types of data that are collected and disseminated as well as a description of how these data are made available.

Block/Formula Grant Programs

3.BF1. Does the program have oversight practices that provide sufficient knowledge of grantee activities?

Purpose of the question: to determine whether or not the program has an understanding of how its funds are utilized by grantees.

Elements of a Yes answer: A Yes answer would require that a program have sufficient oversight capacity. This capacity may be demonstrated by a program that has a reporting system in place to document grantees' use of funds in eligible activity categories, conducts site visits to a substantial number of grantees on a regular basis, audits grantee performance, and tracks actual expenditures to verify that funds are used for their designated purpose. A program with a strong relationship to its grantees and a high level of understanding of what grantees do with the resources allocated to them would receive a Yes.

A program with no reporting system to track expenditures by grantees would receive a No.

Evidence/Data: Evidence can include the reporting structure, oversight techniques, audit or site visit schedule, and/or an assessment of program data quality.

3.BF2. Does the program collect grantee performance data on an annual basis and make it available to the public in a transparent and meaningful manner?

Purpose of the question: to determine whether or not the program has a system in place to collect and present publicly information that captures the most important impacts of program performance.

Elements of a Yes answer: A Yes answer would require the program collects, compiles and disseminates grantee performance information in an accessible manner, such as via a web site or widely available program reports. Data would be both aggregated on a program-wide level and disaggregated at the grantee level.

A program would receive a No if grantee performance information is not available to the public, or if it is only aggregated at a high level. Similarly, a program could receive a No response if the data it presents are not related to the impact of the program.

Evidence/Data: Evidence can include citations of the types of data that are collected and disseminated as

well as a description of how these data are made available.

Regulatory Based Programs

3.RG1. Did the program seek and take into account the views of all affected parties (e.g., consumers; large and small businesses; State, local and tribal governments; beneficiaries; and the general public) when developing significant regulations?

Purpose of the question: to determine the level of coordination, during the rulemaking process, with parties affected by the regulations.

Elements of a Yes Answer: A Yes would require the program solicits the opinions of affected parties on significant regulations and thoroughly evaluates the concerns and suggestions raised by these entities. For example, a program that seeks the opinions of affected parties and incorporates their suggestions or explains why other suggestions were not incorporated during the rule making process could receive a Yes.

If the program drafts its rules in a vacuum without consulting any of the potentially affected parties, it would likely receive a No. While the element of seeking views is mandated by law, the assessment should consider the extent to which the program takes those views into account.

Evidence/Data: Evidence can include notices seeking public comment and addressing comments in final rules, regulation preambles which discuss compliance with the Regulatory Flexibility Act, Unfunded Mandates Act of 1995, Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996, E.O. 13132, and National Environmental Policy Act, and detailed preamble language discussing how public comments were considered and addressed.

3.RG2. Did the program prepare adequate regulatory impact analyses if required by Executive Order 12866, regulatory flexibility analyses if required by the Regulatory Flexibility Act and SBREFA, and cost-benefit analyses if

required under the Unfunded Mandates Reform Act; and did those analyses comply with OMB guidelines?

Purpose of the question: to determine whether the program, in justifying its rules, prepares sound analyses (i.e., cost-benefit analysis, risk analysis) that are rigorous, thorough, and based upon the best available data and consistent with OMB's economic analysis guidelines.

Elements of a Yes Answer: A Yes answer should generally include, but is not limited to, a statement of need of the proposed action, an examination of alternative approaches, and an analysis of the incremental benefits and costs of the proposed action. In accordance with OMB's economic guidelines, programs' regulatory actions should maximize net benefits; consider regulatory and non-regulatory alternatives; monetize regulatory costs and benefits; and choose the alternative that maximizes net benefits in their regulatory analyses. For example, programs that fully document the impacts on public health and safety and the regulated industry through a thorough benefit, cost and risk analysis based upon the best possible available data, and examine other regulatory and non-regulatory alternatives would receive a Yes. A program may receive a Yes if its analyses are subjected to peer review by government entities, academia, industry, or non-profit research organizations; however, peer review is not required for a program to receive a Yes.

If a program's impact analyses fail to include a discussion of the costs of restrictions on the regulated industry, a No response to this question would be appropriate. If the program certifies that regulations would not have a significant economic impact on a substantial number of small entities, the program must provide adequate justification for that conclusion to get a Yes answer.

Evidence/Data: Evidence can include regulatory impact analyses, regulatory flexibility analyses, and cost-benefit analyses for the program's rules, any reports or feedback generated by outside reviewers, and coordination between reviewers and the sponsoring agency or program.

3.RG3. Does the program systematically review its current regulations to ensure consistency among all regulations in accomplishing program goals?

Purpose of the question: to determine whether the agency met the goal intended when developing the regulation. It should be clear that the program consists of only those regulations that are: (1) necessary in achieving its goals, (2) relevant to the current societal and economic situation, and (3) complementary and consistent with each other.

Elements of a Yes Answer: A Yes answer would require a program to review its regulations periodically (e.g., every two years) to ensure that they were consistent with program policies. A consideration would include whether the program makes attempts to minimize regulatory burden through constant review of regulations, with an eye toward streamlining, if possible. An additional factor to consider is whether the program ensures that every regulation is consistent with the program's goals. An example of a Yes could be a program that conducts look-back studies every third year on all of its significant regulations to ensure that they are all current, consistent, and relevant to the program goals, and, if the review concludes that a regulation is no longer necessary, the program proposes or takes action to remedy the situation.

If a program, however, continues to enforce regulations that are no longer justified and/or necessary, the program would receive a No. In addition, a program that has not reviewed its regulations for consistency and necessity in a significant time period would receive a No.

Evidence/Data: Evidence should include:

- a program plan or process to conduct this exercise on a regular basis;
- documentation (such as assessments, evaluations, or examinations; planned or completed) generated as a result of the above processes or plans; and/or

- as a result of this type of review, any changes made to or eliminations from the program or its regulations, or a justification that no change is needed.

NOTE: Questions 2.RG1, 3.RG3, and 4.RG1 address the progression of reviews for a program's rules. Specifically, 2.RG1 addresses targeted development of regulations, 3.RG3 addresses effective implementation of regulations, and 4.RG1 addresses maximization of potential benefits during the regulation's implementation.

3.RG4. Are the regulations designed to achieve program goals, to the extent practicable, by maximizing the net benefits of its regulatory activity?

Purpose of the question: to determine whether the program, as it promulgates regulations, ensures that its regulatory requirements, in total, maximize net benefits. (Note that this question relates to the promulgation of regulations, as opposed to their implementation.)

Elements of a Yes Answer: A Yes answer would require the program to maximize overall net benefits to the greatest extent practicable. The program should show that it makes the best effort to assess how each additional regulation adds to the current level of regulatory requirements and keeps regulatory compliance burden at a minimum, including the burden associated with information collection. Any additional compliance burdens should be shown to increase benefits substantially. An important consideration for this question is whether in promulgating its regulations, for a given level of benefits, the agency allows alternative methods for compliance, record keeping, and reporting to minimize the cost burden on regulated entities (including electronic means). Programs should be judged within their statutory framework; the program should maximize net benefits to the extent allowed by statute in order to get a Yes.

Evidence/Data: Evidence can include statistics on compliance reporting burden and the costs of the program's requirements on regulated industries in

total, or evidence from a thorough cost-benefit analysis.

Capital Assets and Service Acquisition Programs

3.CA1. Is the program managed by maintaining clearly defined deliverables, capability/performance characteristics, and appropriate, credible cost and schedule goals?

Purpose of the question: to determine whether the agency has clearly identified and defined the required quality, capability, and performance characteristics or objectives expected of the end product/result of the asset or service acquisition. This element is critical because it assures that all parties (government, contractor, etc) are working toward the same end-product and result.

Elements of a Yes answer: If acquiring a capital asset, a Yes would require the program to validate planning decisions (procurement phase step III.1 of the Capital Programming Guide), document the capabilities or characteristics that are expected, and to make management decisions based on whether milestones are being met. For example, a weapon system that has defined key performance parameters and operational requirements would get a Yes, one that is proceeding without such definition should receive a No. For services, a Yes would require the program made adequate use of performance-based and fixed-priced type contracts. A program that acquires services through other than performance-based and fixed-priced type contracts should receive a No, unless there is a legitimate reason for not using such contracts.

Evidence/Data: Evidence can include program documentation of planning decision validation for asset acquisitions, and documentation describing key performance characteristics and/or deliverables and demonstration that this information is used appropriately in management decisions.

Credit Programs

3.CR1. Is the program managed on an ongoing basis to assure credit quality remains sound, collections and disbursements are timely, and reporting requirements are fulfilled?

Purpose of the question: to determine whether the program agency and its partners manage the financial performance of their credit programs.

Elements of a Yes answer: A Yes answer would require managing the program based on the results of an effective monitoring system that tracks the financial performance of each credit facility. Collection and analysis of borrower repayment streams should be part of the evaluation process and could be coupled with reports from or trips to the field. The evaluation should also include an analysis of agency efforts to reduce default rates,—and maximize collections and recoveries.

Evidence/Data: Evidence can include quarterly financial statements from the program, agency, Treasury, the guaranteed lender, loan servicing agent; internal evaluations, external independent performance evaluations; reports from field representatives or trips to the field on the borrowers' performance.

3.CR2. Do the program's credit models adequately provide reliable, consistent, accurate and transparent estimates of costs and the risk to the Government?

Purpose of the questions: to determine whether the program uses a reliable method for estimating program costs.

Elements of a Yes answer: A Yes answer would require that the agency employ a rigorous cost-estimation model that adequately accounts for the government's risk and generates dependable cost estimates for each cohort. A program whose cost estimates routinely differ markedly from actual results should receive a No.

Evidence/Data: Evidence can include a description of any problems or advantages of the program's cost

estimation model. For example, a strong model could employ well established statistical estimation techniques that have a solid track record for predicting borrower activity. However, a weaker model could fail to account for potential contingencies that increase government risk.

Research and Development Programs

R&D programs addressing the acquisition, construction or operation of facilities or other capital assets should answer the Capital Assets and Service Acquisition question (3.CA1).

R&D programs that use competitive grants, contracts, cooperative agreements or other transactions should answer the Competitive Grants questions (3.CO1, CO2, CO3).

3.RD1. For R&D programs other than competitive grants programs, does the program allocate funds and use management processes that maintain program quality?

Purpose of the question: to determine whether the program uses a clearly stated, defensible method for allocating its R&D funding. This question is central to addressing the R&D "quality" criterion (see Appendix A).

Elements of a Yes answer: A Yes answer would require that the program allocate funding using a broadly competitive process based on merit, or that it has compelling justifications for R&D funding allocated through other means. Interpretations of competition and merit review should be consistent with the definitions in Circular A-11: "...intramural and extramural research programs where funded activities are competitively awarded following review for scientific and technical merit." All program funds allocated through means other than unlimited competition must document the processes they use to distribute funds to each type of R&D performer (e.g., federal laboratories, federally funded R&D centers, universities, etc.). Programs are encouraged to use

external assessment of the methods they use to allocate R&D and maintain program quality.

Evidence/Data: Evidence can include a description of the awards process, percentage of funds earmarked, percentage of funds subject to competitive peer review, and results of external assessments.

IV. PROGRAM RESULTS/ACCOUNTABILITY

This section considers whether a program is meeting its long-term and annual performance goals. This section also assesses how well the program compares to similar programs and how effective the program is based on independent evaluations. Potential source documents and evidence for answering questions in this section include GPRA performance reports, evaluations, GAO reports, IG reports and other agency documents. Assessments of program results should be based on the most recent reporting cycle or other relevant data. The Measures tab in the PART worksheet contains data fields for a performance targets and results, and should be completed to the greatest extent possible for all measures agreed to by OMB and the agency for Section II.

Answers in this section are rated as Yes, Large Extent, Small Extent, and No. Like Sections I-III, the scoring system in this section remains on a 0 to 1 point scale. Scoring for this section differs by including the option of partial credit between 0 and 1 in increments of 0, .33, .67, and 1.

In general, Not Applicable answers are not appropriate for Questions 4.1 and 4.2. While it is recognized that some programs may have great difficulty developing quantitative performance goals, programs are strongly encouraged to have some meaningful and appropriate methods for demonstrating results. OMB and agencies should work together to develop approaches for programs where it is difficult to develop quantitative measures, and where qualitative, expert-review, or other measures are more appropriate. Not Applicable is a potential answer for Question 4.3 if the program is already operating at very high efficiency levels. It may also be a possible answer for Question 4.4 and, with specific justification, for Question 4.5. (For

R&D programs, most of the questions in this section help address the retrospective aspects of the R&D Investment Criteria, with emphasis on the "performance" criterion (see Appendix A).)

4.1. Has the program demonstrated adequate progress in achieving its long-term performance goals?

Purpose of the question: to determine whether the program is meeting or making measurable progress toward meeting the long-term performance goals evaluated in Questions 2.1 and 2.2. The question also seeks to determine whether the program's partners are meeting long-term goals evaluated in Question 2.5, if partner performance is critical to the program achieving its goals. Examples of partners can include grantees, participating financial institutions, regulated bodies, or suppliers.

Elements of a Yes answer: A Yes answer (i.e., full credit) would require that the program is on track to meet all the long-term performance goals - including ambitious targets and timeframes - evaluated in Questions 2.1 and 2.2. A program would not receive a Yes answer by simply meeting any one of its long-term targets, or by having performance measures but no ambitious targets and timeframes. A Yes answer would also require that, where applicable, partners commit to long-term outcome targets and achieve them as well. Where relevant, a Yes answer would also require that a program has addressed appropriately any predefined end targets.

Partial credit, such as Large Extent or Small Extent, should be given in cases where there is partial, but notable, achievement of long-term targets. A program could receive a No if it had received a Yes for achieving its annual targets (next question), but is not making progress toward meeting its long-term goals.

Additional rating guidance:

- If adequate outcome (or output) measures are not available and a program received a No in Question 2.1, the program must receive a No answer to this question.
- If the program received a Yes in Question 2.1 and a No in Question 2.2, then the program cannot receive a rating higher than Small Extent.

The only exceptions to this guidance are in cases in which OMB has approved the use of alternative forms of assessment, as discussed in the Section IV overview.

Evidence/Data: Evidence can include data from the agency's GPRA performance report, a strategic plan, or other Administration goals and objectives. Reports detailing customer satisfaction with program performance, program reports detailing rates of utilization or participation, or independent evaluations of the program's performance may also be considered as relevant evidence. In cases where targets are not met, additional evidence can include an explanation of the main reasons.

Space is provided in the Measures tab of the PART worksheet to list and document goals, targets and achieved results. Only measures that meet the standards for a Yes should be entered on the worksheet.

4.2. Does the program (including program partners) achieve its annual performance goals?

Purpose of the question: to determine whether the program is meeting the targets evaluated in Question 2.4. The question also seeks to determine whether the program's partners are meeting annual targets evaluated in Question 2.5, if partner performance is critical to the program achieving its overall targets. Examples of partners can include grantees, contractors, participating financial institutions, regulated bodies, or suppliers.

Elements of a Yes answer: A Yes answer (i.e., full credit) would require that the program meet all the annual performance targets evaluated in Question 2.4. A Yes answer would also require the program received a Yes for Questions 2.1 and 2.3, and a Yes or Not Applicable for Question 2.5. A program would not receive a Yes answer by simply meeting any one of its annual targets. A Yes answer would also require that, where applicable, partners commit to annual targets and achieve them as well.

Partial credit such as Large Extent or Small Extent, should be given in cases where there is partial, but notable, achievement of targets.

Additional rating guidance:

- If a program received a No in Question 2.3, the program must receive a No answer to this question.
- If the program received a Yes in Question 2.3 and a No in Question 2.4, then the program cannot receive a rating higher than Small Extent.

The only exceptions to this guidance are in cases in which OMB has approved the use of alternative forms of assessment, as discussed in the Section IV overview.

Evidence/Data: Evidence can include data from the agency's annual GPRA performance report, a strategic plan, or other Administration goals and objectives. In cases where targets are not met, additional evidence can include an explanation of the main reasons.

Space is provided in the Measures tab of the PART worksheet to list and document goals, targets and achieved results. Only measures that meet the standards for a Yes should be entered on the worksheet.

4.3. Does the program demonstrate improved efficiencies or cost effectiveness in achieving program goals each year?

Purpose of the question: to determine whether management practices have resulted in efficiency gains over the past year.

Elements of a Yes answer: A Yes would require that the program demonstrate improved efficiency or cost effectiveness over the prior year. Efficiency improvements should generally be measured in terms of dollars or time. Programs that complete an A-76 competition - an indicator of cost-efficient processes - would also likely be eligible for a Yes answer, provided that the competition addresses the program's key cost and performance drivers. Also, programs that clearly demonstrate very high levels of efficiency through other means may receive a Yes without documenting increasing efficiency over time. A program would normally not be eligible for a Yes answer to this question if it received a No in Question 3.4.

Evidence/Data: Evidence can include meeting performance targets to reduce per unit costs or time, meeting production and schedule targets; or meeting other targets that result in tangible productivity or efficiency gains. Efficiency measures may also be considered in Questions 4.1 and 4.2.

4.4. Does the performance of this program compare favorably to other programs, including government, private, etc., with similar purpose and goals?

Purpose of the question: to determine how well the program performs relative to other programs engaged in a similar activity.

Elements of a Yes answer: A Yes answer would require the program compare favorably to other programs with similar purpose and goals. Programs are not limited to Federal government and can include State and local government and the private sector. The user should consider relevant evaluations that allow a comparison of programs with similar purpose and goals. A Not Applicable rating is appropriate if 1) no comparable federal, state, local government, or private sector programs exist, or 2) the comparison would be too inherently difficult and costly to perform for the foreseeable future. The explanation for Not Applicable should explain why the comparison is inherently too difficult to perform. (This question is not limited to comparisons of programs with explicitly coordinated "common measures.")

For capital assets and service acquisition programs, review of performance should include cost/schedule adherence, quality, and quantity of deliverables.

Evidence/Data: Evidence can include evaluations and documentation comparing similar programs.

4.5. Do independent evaluations of sufficient scope and quality indicate that the program is effective and achieving results?

Purpose of the question: to determine whether the program is effective based on independent and comprehensive evaluations. This question may be particularly important for programs that have substantial difficulty formulating quantitative performance measures. (For R&D programs,

this question is central to retrospective assessment of all of the R&D criteria (see Appendix A).)

Elements of a Yes answer: A Yes answer would require that independent program evaluations indicate that the program is effective. (If the evaluations of Question 2.6 address past effectiveness and accomplishments, they may be used as evidence for this question as well.) The quality of evaluations of the program presented in Question 2.6 should strongly be considered in answering this question. The most definitive data supporting a program's overall effectiveness would be from a randomized controlled trial, when appropriate and feasible. Data from other evaluation methods, such as quasi-experimental and non-experimental, can be considered as detailed in Question 2.6, but should be scrutinized given the increased possibility of an erroneous conclusion. If a program is taking necessary steps to correct deficiencies uncovered by the evaluation, the user should address this effort in Question 3.7.

Relevant evaluations would be at the national program level, rather than evaluations of one or more program partners, and would not focus only on process indicators such as the number of grants provided, or hits on a web site. Relevant evaluations would consider a program's impact and effectiveness. Evaluations conducted by the program itself should not be considered "independent." However, if the program has contracted out the evaluation to a third-party, it might be considered independent. Evaluations conducted by an agency's Inspector General or program-evaluation office also might be considered "independent." OMB examiners and agency staff will determine if a specific evaluation can be considered "independent" for this question.

Not Applicable is not an option for this question; given the flexibility in determining what constitutes an evaluation, all programs should undergo an evaluation that meets the elements of quality, scope, and independence detailed in Question 2.6.

Evidence/Data: Evidence can include findings of an evaluation conducted by the General Accounting Office, Inspectors General, academic and research institutions, agency contracts, or other independent entities.

Specific Results Questions by Program Type

Regulatory Based Programs

4.RG1. Were programmatic goals (and benefits) achieved at the least incremental societal cost and did the program maximize net benefits?

Purpose of the question: to determine whether the program met its goals in the most efficient way possible. It should be determined whether the program maximized net benefits through implementation of its regulatory actions (as opposed to regulatory development). In calculating the incremental costs of a new regulation, these costs should be compared to a baseline or, in a small number of cases, a less stringent alternative. This question deals with the actual implementation of the regulatory action, not just the conception and promulgation of the regulatory action.

Elements of a Yes answer: A Yes answer would require that the program's implementation of the regulatory action maximizes net benefits. For example, a Department of Transportation maximum load regulation that demonstrates that 1) the realized benefits to health and safety outweigh the realized incremental costs of compliance, and 2) the net benefits of the regulatory approach adopted are higher than reasonable alternatives, would receive a Yes.

If a program's regulations result in greater incremental costs than benefits, or if the program does not analyze alternative approaches to demonstrate that its regulatory approach maximized net benefits, the program should get a No.

Evidence/Data: Evidence can include Regulatory Impact Analyses (RIA) or other supporting programmatic analyses (with supporting data after implementation that assumptions were correct), look-back studies, independent evaluations, or additional impact analyses using retrospective data. If a No answer is attributable to statutory requirements to regulate despite the fact that incremental costs exceed benefits, these statutory requirements should be included in the evidence section.

NOTE: Questions 2.RG1, 3.RG3, and 4.RG1 address the progression of review for a program's rules. Specifically, 2.RG1 addresses targeted development of regulations, 3.RG3 addresses effective implementation of regulations, and 4.RG1 addresses maximization of potential benefits during the regulation's implementation.

Capital Assets and Service Acquisition Programs

4.CA1. Were program goals achieved within budgeted costs and established schedules?

Purpose of the question: to determine whether valid program goals were achieved within budgeted costs and established schedules and whether the program spends funds as planned and budgeted. For capital assets procured and in operation, this question also addresses management-in-use (i.e., the operations and disposal costs).

Elements of a Yes answer: A Yes answer would require that the program achieved the goals evaluated in Section II on budget and on schedule. An example of a program that could receive a No rating could be an acquisition program that has experienced 60 percent cost growth and is behind schedule. If a program's cost and schedule targets were changed in the last 12 months specifically due to failure to achieve previous goals, the program should get a No.

Evidence/Data: Evidence can include a comparison of the contract schedule, deliverables, and costs with the final outcomes for that fiscal year.

Research and Development Programs

R&D programs addressing the acquisition, construction or operation of facilities or other capital assets should answer the Capital Assets and Service Acquisition question (4.CA1).

For Research and Development Programs: R&D Investment Criteria

As another initiative of the President's Management Agenda, the development of explicit R&D investment criteria builds on the best of the planning and assessment practices that R&D program managers use to plan and assess their programs. The Administration has worked with experts and stakeholders over the past two years to build upon lessons learned from previous approaches.

This year, the content of the R&D investment criteria has not changed from last year, but OMB has worked to clarify its implementation. Specifically, agencies should use the criteria as broad guidelines that apply at all levels of federally funded R&D efforts, and they should use the PART as the instrument to periodically evaluate compliance with the criteria at the program level. To make this possible, the R&D PART has been modified to clarify its alignment with the R&D criteria. The R&D criteria are reprinted here as a guiding framework for addressing the R&D PART. More details will follow on other aspects of R&D criteria implementation this year.

The R&D criteria address not only planning, management, and prospective assessment but also retrospective assessment. Retrospective review of whether investments were well-directed, efficient, and productive is essential for validating program design and instilling confidence that future investments will be wisely invested. Retrospective reviews should address continuing program relevance, quality, and successful performance to date.

While the criteria are intended to apply to all types of R&D, the Administration is aware that predicting and assessing the outcomes of basic research in particular is never easy. Serendipitous results are often the most interesting and ultimately may have the most value. Taking risks and working toward difficult-to-attain goals are important aspects of good research management, and innovation and breakthroughs are among the results. However, there is no inherent conflict between these facts and a call for clearer information about program goals and performance toward achieving those goals. The Administration expects agencies to focus on improving the

management of their research programs and adopting effective practices, and not on predicting the unpredictable.

The R&D investment criteria have several potential benefits:

- Use of the criteria allows policy makers to make decisions about programs based on information beyond anecdotes, prior-year funding levels, and lobbying of special interests.
- A dedicated effort to improve the process for budgeting, selecting, and managing R&D programs is helping to increase the return on taxpayer investment and the productivity of the federal R&D portfolio.
- The R&D investment criteria will help communicate the Administration's expectations for proper program management.
- The criteria and subsequent implementation guidance will also set standards for information to be provided in program plans and budget justifications.
- The processes and collected information promoted under the criteria will improve public understanding of the possible benefits and effectiveness of the federal investment in R&D.

The R&D Investment Criteria

The Relevance, Quality, and Performance criteria apply to all R&D programs. Industry- or market-relevant applied R&D must meet additional criteria. Together, these criteria can be used to assess the need, relevance, appropriateness, quality, and performance of federal R&D programs.

I. Relevance

R&D investments must have clear plans, must be relevant to national priorities, agency missions, relevant fields, and "customer" needs, and must justify their claim on taxpayer resources. Programs that directly support Presidential priorities may receive special consideration with adequate

documentation of their relevance. Review committees should assess program objectives and goals on their relevance to national needs, "customer" needs, agency missions, and the field(s) of study the program strives to address. For example, the Joint DOE/NSF Nuclear Sciences Advisory Committee's Long Range Plan and the Astronomy Decadal Surveys are the products of good planning processes because they articulate goals and priorities for research opportunities within and across their respective fields.

OMB will work with some programs to identify quantitative metrics to estimate and compare potential benefits across programs with similar goals. Such comparisons may be within an agency or among agencies.

A. Programs must have complete plans, with clear goals and priorities.

Programs must provide complete plans, which include explicit statements of:

- specific issues motivating the program;
- broad goals and more specific tasks meant to address the issues;
- priorities among goals and activities within the program;
- human and capital resources anticipated; and
- intended program outcomes, against which success may later be assessed.

B. Programs must articulate the potential public benefits of the program.

Programs must identify potential benefits, including added benefits beyond those of any similar efforts that have been or are being funded by the government or others. R&D benefits may include technologies and methods that could provide new options in the future, if the landscape of today's needs and capabilities changes dramatically. Some programs and sub-program units may be required to quantitatively

estimate expected benefits, which would include metrics to permit meaningful comparisons among programs that promise similar benefits. While all programs should try to articulate potential benefits, OMB and OSTP recognize the difficulty in predicting the outcomes of basic research. Consequently, agencies may be allowed to relax this as a requirement for basic research programs.

- C. Programs must document their relevance to specific Presidential priorities to receive special consideration.

Many areas of research warrant some level of federal funding. Nonetheless, the President has identified a few specific areas of research that are particularly important. To the extent a proposed project can document how it directly addresses one of these areas, it may be given preferential treatment.

- D. Program relevance to the needs of the Nation, of fields of Science & Technology, and of program "customers" must be assessed through prospective external review.

Programs must be assessed on their relevance to agency missions, fields of science or technology, or other "customer" needs. A customer may be another program at the same or another agency, an interagency initiative or partnership, or a firm or other organization from another sector or country. As appropriate, programs must define a plan for regular reviews by primary customers of the program's relevance to their needs. These programs must provide a plan for addressing the conclusions of external reviews.

- E. Program relevance to the needs of the Nation, of fields of S&T, and of program "customers" must be assessed periodically through retrospective external review.

Programs must periodically assess the need for the program and its relevance to customers against the

original justifications. Programs must provide a plan for addressing the conclusions of external reviews.

II. Quality

Programs should maximize the quality of the R&D they fund through the use of a clearly stated, defensible method for awarding a significant majority of their funding. A customary method for promoting R&D quality is the use of a competitive, merit-based process. NSF's process for the peer-reviewed, competitive award of its R&D grants is a good example. Justifications for processes other than competitive merit review may include "outside-the-box" thinking, a need for timeliness (e.g., R&D grants for rapid response studies of *Pfisteria*), unique skills or facilities, or a proven record of outstanding performance (e.g., performance-based renewals).

Programs must assess and report on the quality of current and past R&D. For example, NSF's use of Committees of Visitors, which review NSF directorates, is an example of a good quality-assessment tool. OMB and OSTP encourage agencies to provide the means by which their programs may be benchmarked internationally or across agencies, which provides one indicator of program quality.

A. Programs allocating funds through means other than a competitive, merit-based process must justify funding methods and document how quality is maintained.

Programs must clearly describe how much of the requested funding will be broadly competitive based on merit, providing compelling justifications for R&D funding allocated through other means. (See OMB Circular A-11 for definitions of competitive merit review and other means of allocating federal research funding.) All program funds allocated through means other than unlimited competition must document the processes they will use to distribute funds to each type of R&D performer (e.g., federal laboratories, federally funded R&D centers, universities, etc.). Programs are encouraged to use external assessment of the methods they use to allocate R&D and maintain program quality.

- B. Program quality must be assessed periodically through retrospective expert review.

Programs must institute a plan for regular, external reviews of the quality of the program's research and research performers, including a plan to use the results from these reviews to guide future program decisions. Rolling reviews performed every 3-5 years by advisory committees can satisfy this requirement. Benchmarking of scientific leadership and other factors provides an effective means of assessing program quality relative to other programs, other agencies, and other countries.

III. Performance

R&D programs should maintain a set of high priority, multi-year R&D objectives with annual performance outputs and milestones that show how one or more outcomes will be reached. Metrics should be defined not only to encourage individual program performance but also to promote, as appropriate, broader goals, such as innovation, cooperation, education, and dissemination of knowledge, applications, or tools.

OMB encourages agencies to make the processes they use to satisfy the Government Performance and Results Act (GPRA) consistent with the goals and metrics they use to satisfy these R&D criteria. Satisfying the R&D performance criteria for a given program should serve to set and evaluate R&D performance goals for the purposes of GPRA. OMB expects goals and performance measures that satisfy the R&D criteria to be reflected in agency performance plans.

Programs must demonstrate an ability to manage in a manner that produces identifiable results. At the same time, taking risks and working toward difficult-to-attain goals are important aspects of good research management, especially for basic research. The intent of the investment criteria is not to drive basic research programs to pursue less risky research that has a greater chance of success. Instead, the Administration will focus on improving the management of basic research programs.

OMB will work with some programs to identify quantitative metrics to compare performance across programs with

similar goals. Such comparisons may be within an agency or among agencies.

Construction projects and facility operations will require additional performance metrics. Cost and schedule earned-value metrics for the construction of R&D facilities must be tracked and reported. Within DOE, the Office of Science's formalized independent reviews of technical cost, scope, and schedule baselines and project management of construction projects ("Lehman Reviews") are widely recognized as an effective practice for discovering and correcting problems involved with complex, one-of-a-kind construction projects.

- A. Programs may be required to track and report relevant program inputs annually.

Programs may be expected to report relevant program inputs, which could include statistics on overhead, intramural/extramural spending, infrastructure, and human capital. These inputs should be discussed with OMB.

- B. Programs must define appropriate output and outcome measures, schedules, and decision points.

Programs must provide single- and multi-year R&D objectives, with annual performance outputs, to track how the program will improve scientific understanding and its application. Programs must provide schedules with annual milestones for future competitions, decisions, and termination points, highlighting changes from previous schedules. Program proposals must define what would be a minimally effective program and a successful program. Agencies should define appropriate output and outcome measures for all R&D programs, but agencies should not expect fundamental basic research to be able to identify outcomes and measure performance in the same way that applied research or development are able to. Highlighting the results of basic research is important, but it should not come at the expense of risk-taking and innovation. For some basic research programs, OMB may accept the use of qualitative outcome measures and quantitative process metrics. Facilities programs must define metrics and methods

(e.g., earned-value reporting) to track development costs and to assess the use and needs of operational facilities over time. If leadership in a particular field is a goal for a program or agency, OMB and OSTP encourage the use of benchmarks to assess the processes and outcomes of the program with respect to leadership. OMB encourages agencies to make the processes they use to satisfy GPRA consistent with the goals and metrics they use to satisfy these R&D criteria.

C. Program performance must be retrospectively documented annually.

Programs must document performance against previously defined output and outcome metrics, including progress toward objectives, decisions, and termination points or other transitions. Programs with similar goals may be compared on the basis of their performance. OMB will work with agencies to identify such programs and appropriate metrics to enable such comparisons.

IV. Criteria for R&D Programs Developing Technologies That Address Industry Issues

The purpose of some R&D and technology demonstration programs and projects is to introduce some product or concept into the marketplace. However, some of these efforts engage in activities that industry is capable of doing and may discourage or even displace industry investment that would occur otherwise. For the purposes of assessing federal R&D investments, the following criteria should be used to assess industry-relevant R&D and demonstration projects, including, at OMB discretion, associated construction activities.

OMB will work with programs to identify quantitative metrics to measure and compare potential benefits and performance across programs with similar goals, as well as ways to assess market relevance.

A. Programs and projects must articulate public benefits of the program using uniform benefit indicators across programs and projects with similar goals.

In addition to the public benefits required in the general criteria, all industry-relevant programs and projects must identify and use uniform benefit indicators (including benefit-cost ratios) to enable comparisons of expected benefits across programs and projects. OMB will work with agencies to identify these indicators.

- B. Programs and projects must justify the appropriateness of federal investment, including the manner in which the market fails to motivate private sector investment.

A lack of market incentives discourages private firms from investing in research where the benefits may occur far in the future, the risks may be too great for non-federal participants, or the benefits accrue to the public rather than private investors. Programs and projects must demonstrate that industry investment is sub-optimal and explain in what way the market fails that prevents the private sector from capturing the benefits of developing the good or service.

- C. Programs and projects must demonstrate that investment in R&D and demonstration activities is the best means to support the federal policy goals, compared to other policy alternatives.

When the federal government chooses to intervene to address market failures, there may be many policy alternatives to address those failures. Among the other tools available to the government are legislation, tax policy, regulatory and enforcement efforts, and an integrated combination of these approaches. In this context, projects to address issues of genuine federal concern should be able to illustrate how R&D and demonstration activities are superior to other policy tools in addressing federal goals, either by themselves or as part of an integrated package.

- D. Programs and projects must document industry or market relevance, including readiness of the market to adopt technologies or other outputs.

Programs must assess the likelihood that the target industry will be able to adopt the technology or other program outputs. The level of industry cost sharing is one indicator of industry relevance. Before projects move into demonstration or deployment stages, an economic analysis of the public and private returns on the public investment must be provided.

- E. Program performance plans and reports must include "off ramps" and transition points.

In addition to the schedules and decision points defined in the general criteria, program plans should also identify whether, when, and how aspects of the program may be shifted to the private sector.

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APPENDIX C. SCORECARD CORE CRITERIA

(Source: <http://www.john-mercero.com/pma-stds5.htm>)

Criteria for "Green"

In order to be recognized as achieving full compliance with the Budget and Performance Integration initiative of the President's Management Agenda, the agency must satisfy OMB that it meets each of the following six Core Criteria:

- o "Senior agency managers meet at least quarterly to examine reports that integrate financial and performance information that covers all major responsibilities of the Department. This information is used to make decisions regarding the management of agency programs;"
- o "Strategic plans contain a limited number of outcome-oriented goals and objectives. Annual budget and performance documents incorporate all measures identified in the PART and focus on the information used in the senior management report described in the first criterion;"
- o "Performance appraisal plans for at least 60% of agency positions link to agency mission, goals and outcomes, effectively differentiate between various levels of performance, and provide consequences based on performance;"
- o "Reports the full cost of achieving performance goals accurately (+/-10%) in budget and performance documents and can accurately estimate the marginal cost (+/-10%) of changing performance goals;" "Has at least one efficiency measure for all programs; and"
- o "Uses PART evaluations to direct program improvements and PART ratings are used consistently to justify funding requests, management actions, and legislative proposals. Less than 10% of agency programs receive a Results Not Demonstrated rating for more than two years in a row."

Criteria for "Yellow"

A rating of "yellow" is awarded when the agency meets the following criteria:

- o "Senior agency managers meet at least quarterly to examine reports that integrate financial and performance information that covers some of the major responsibilities of the Department. The reports are used to make decisions regarding the management of Agency programs;"
- o "Strategic plans contain a limited number of outcome-oriented goals and objectives. Annual budget and performance documents incorporate all measures identified in the PART process;"
- o "Performance appraisal plans for SES and managers link to agency mission, goals and outcomes, effectively differentiate between various levels of performance, and provide consequences based on performance;"
- o "The full cost of achieving performance goals is accurately (+/-10%) reported in budget and performance documents;"
- o "At least 50% of agency programs rated by the PART have at least one efficiency measure;"
- o "PART ratings are used to justify funding requests, management actions, and legislative proposals. No more than 50% of agency programs receive a Results Not Demonstrated rating for more than two years in a row."

Negative Conditions for "Red"

A rating of "red" is triggered if any **one** of the following negative Conditions is found:

- o "Senior agency managers do not have a regular process for considering financial and performance information when making decisions regarding the management of Agency programs;"
- o "Strategic plans contain too many goals and objectives to provide a clear and focused statement of Agency priorities. Performance measures included in annual budget and performance documents do not meet the standards of the PART;"

- "Performance appraisal plans do not link to agency mission, goals and outcomes, effectively differentiate between various levels of performance, or provide consequences based on performance;"
- "Does not have a systematic way to estimate the full cost of achieving performance goals reported in budget and performance documents;"
- "Less than 50% of agency programs rated by the PART have at least one efficiency measure;" OR
- "Agency does not consistently use PART ratings to justify funding requests, management actions, and legislative proposals. More than 50% of agency programs receive a Results Not Demonstrated rating for more than two years in a row."

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